Canadian Pacific Limited

ANNUAL REPORT

1981

1982

Annual General Meeting

The Annual General Meeting of the Shareholders is to be held on Wednesday, May 5, 1982, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m., Montreal time.

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Canada H3C 3E4

Legal deposit, 1st quarter (1982)

Summarized Statement of Income of Canadian Pacific Limited

	1981	1980	*Increase or (Decrease)*
		in millions	
Net income from:			
CP Rail	**$ 127.2**	$ 121.6	$ 5.6
CP Air	**(22.8)**	2.8	(25.6)
CP Ships	**43.8**	52.4	(8.6)
CP Trucks	**5.5**	(1.5)	7.0
Soo Line Railroad Company	**23.0**	23.1	(0.1)
CP Telecommunications	**4.9**	5.0	(0.1)
Miscellaneous	**17.0**	16.9	0.1
Canadian Pacific Enterprises Limited	**287.0**	362.9	(75.9)
Net income	**$ 485.6**	$ 583.2	$ (97.6)
Per Ordinary share:			
Net income	**$ 6.75**	$ 8.11	$ (1.36)
Dividends	**1.90**	1.85	0.05

To the Shareholders

During 1981, Canadian Pacific marked its Centennial – one hundred years of growth and achievement. Business people and employees across Canada and abroad were invited to share in celebrating the Company's century of progress. The Board of Directors met in several provincial capitals during the course of the year and hosted a series of luncheons and receptions to commemorate the Centennial with local business people, elected representatives and community leaders.

Canadian Pacific "Family Days", organized by energetic groups of employees across the system, proved a tremendous success. Officers, pensioners, employees and their families celebrated the Company's first hundred years and toasted the next. The Directors are confident that the talents and commitment of officers and employees that have been the key to Canadian Pacific's success in the past will serve the Company well in the future.

F. S. Burbidge (left)
Chairman and
Chief Executive Officer

W. W. Stinson (right)
President

Economic conditions in 1981 were again dominated by the problems of inflation and slow growth. The rate of inflation in Canada was 12.5% – the highest in any year since 1948. Interest rates soared to record highs. Canada's gross national product grew at a rate of 3.0% – well below the economy's post-war average. During the first two quarters of the year, growth was surprisingly strong, but then in the third quarter a steep decline began, with GNP dropping 3.4% on an annualized basis. The decline continued in the fourth quarter, when the rate of decrease was 2.1%. As economic conditions deteriorated, corporation profits weakened seriously.

The Company's consolidated net income amounted to $485.6 million, or $6.75 per Ordinary share. This compared with earnings of $583.2 million, or $8.11 per share in 1980.

Net income of the Company excluding the equity in income retained by subsidiaries amounted to $270.9 million, or $3.76 per Ordinary share, compared with $257.8 million, or $3.57 per share, in 1980. Out of these earnings, the Company declared dividends of $1.90 per Ordinary share, up from $1.85 in 1980.

Effective the first quarter of 1982, consideration will be given quarterly to the declaration of dividends on the Company's Ordinary shares.

As can be seen from the table on page 1, the decrease in the Company's earnings was attributable largely to lower income from Canadian Pacific Enterprises Limited. In the transportation group, CP Rail and CP Trucks showed improvement, while there were reductions in CP Air and CP Ships.

Income from CP Rail was up $5.6 million over 1980. However, the increase was achieved entirely on the strength of its results in the first six months. In the second half, higher expenses outpaced increases in revenue.

CP Air suffered the worst year in its history, incurring a loss of $22.8 million, in contrast to a profit of $2.8 million in 1980. Although revenue rose, the increase was more than offset by higher costs, especially of fuel and labour.

The decrease of $8.6 million in income from CP Ships was attributable mainly to the Company's Bulk Shipping Operations, which earned $44.0 million, down from $51.4 million in 1980. Despite increased gains on sale of vessels during the year, income was lower reflecting the recession in international shipping markets. Container Operations had a loss of $197,000, compared with a profit of $919,000 in the previous year, largely the result of higher expenses and the effects of recession on trade.

CP Trucks made a significant recovery during the year, producing a profit of $5.5 million compared with a loss of $1.5 million in 1980. This achievement reflected improved operating efficiency and emphasis on marketing the complete line of truck, express, parcel and bulk services.

Soo Line Railroad Company reported a 7% increase in its net income in 1981. However, the Company's share of Soo Line earnings, representing a 55.7% interest, was almost the same as in 1980 due to the effects of exchange on translation of Soo's accounts into Canadian dollars. Despite some decline in freight traffic volume, Soo's earnings rose largely because of higher freight rates, operating efficiency and increased interest income.

Income from telecommunication operations of $4.9 million was virtually the same as in 1980, as higher costs offset the growth in revenue generated mainly by increased volume.

Income from Canadian Pacific Enterprises Limited, 70.7% owned by CP Limited, declined $75.9 million from 1980. Although there was a substantial increase in income from iron and steel operations, this was more than offset by decreases in earnings from mines and minerals, oil and gas and forest products.

Higher steel selling prices, increased sales volume and an improved product mix were the principal factors in the better results of iron and steel.

There was a sizeable decline in income from mines and minerals, due principally to lower silver, lead and gold prices and reduced sales volumes of silver, gold, refined lead and electric power.

The Petroleum and Gas Revenue Tax, which became effective January 1, 1981, and higher operating costs were primarily responsible for the reduction in income from oil and gas.

Income from forest products was down chiefly on account of losses from CIP Inc., due to soft markets and high interest costs, and from Pacific Forest Products, reflecting weak markets for logs and lumber.

The Company's businesses continued to modernize or add facilities and equipment during the year as part of their plans for the future. CP Rail welcomes the Federal Government's announcement in February 1982 of the appointment of a negotiator to consult with grain producer organizations and the railways in order to resolve the Crow rate problem and to provide adequate compensation to the railways for moving western export grain. Encouraged by this initiative, CP Rail will proceed with preparatory work on the $550 million tunnel project through Rogers Pass. The project, which has been given interim approval by the Canadian Transport Commission, will be the largest undertaken since CP Rail completed the transcontinental line almost a century ago. It is expected to take five years to complete and will provide jobs for up to 800 on-site workers.

The Rogers Pass project is part of a more than $7 billion capital investment program planned by CP Rail over a 10-year period for replacement, improvement and expansion of its rail plant and equipment to meet transportation demand during this decade. Resolution of the grain rate problem is essential to the carrying out of the program.

CP Air expanded its domestic route system during the year when it began providing service to Halifax and Victoria. Late in the year CP Air was awarded the right to serve Saskatoon and Regina; scheduled service is planned to begin in 1982.

During 1981, the airline added six Boeing 737-200 and two DC-10-30 aircraft to its fleet. Four standard DC-8's and two Boeing 727-200 aircraft, which are relatively fuel-inefficient, were retired from service. Aircraft on order include six additional Boeing 737-200's, two more DC-10-30's and four new generation Boeing 767's, all to be delivered over the next four years.

The Company's Bulk Shipping Operations acquired a new 31,500-ton product tanker during the year, and will take delivery of two new 64,000-ton dry bulk carriers in 1982. Two smaller-sized dry bulk carriers were disposed of during 1981, and early in 1982 a very large size crude oil tanker (VLCC) was also sold.

In August 1981, the Company's Container Operations in conjunction with Dart Canada and Manchester Liners began operating a new co-ordinated container service between Canada and Europe. The new service, which became fully operational late in December, is expected to produce competitive advantages and cost efficiencies. Agreement was also reached for Canadian Pacific to purchase a one-third interest in an enterprise providing container shipping service between the U.S. east coast and Western Europe; however implementation has been delayed awaiting regulatory approval.

On October 1, 1981, Canadian Pacific Enterprises completed the acquisition of all outstanding shares of Canadian International Paper Company, now known as CIP Inc., for Canadian $1.1 billion.

Major developments among the companies of Enterprises during the year involved the acquisition by PanCanadian of a 35% interest in a large methanol plant under construction near Edmonton, Alberta; the completion by Cominco of a major zinc-lead mining facility in the Canadian High Arctic, and continuation of the modernization and expansion program at that company's metallurgical plants in British Columbia; the completion of a project to expand Fording Coal's production capacity at its mine in British Columbia; continuation of the project to modernize and expand the Dryden, Ontario pulp and paper operations of Great Lakes Forest Products; the continuation of construction of a new seamless tube mill for Algoma Steel; and the completion by Marathon Realty of office buildings, a shopping centre and several industrial and commercial properties.

Current economic forecasts predict recovery from the recession in 1982, but there is general agreement that no improvement is likely until the latter part of the year. The prospect, therefore, is for a year of little, if any, economic growth. As a result, business profits will be under considerable pressure, as experience during the first months of the year is indicating.

For the Directors,

W.W. Stinson

President

F.S. Burbidge

Chairman and
Chief Executive Officer

Montreal, March 8, 1982.

Financial Review

Over the last three years consolidated assets of the Company increased from $9,256 million at the end of 1978 to $16,330 million at the end of 1981. In that period, working capital rose from $762 million to $1,393 million, and the net investment in properties increased from $5,770 million to $10,635 million. The chief source of financing capital additions to properties is funds from operations, which amounted to $1,488 million in 1979, $1,712 million in 1980 and $1,751 million in 1981. In the past three years, minority shareholders' interest in subsidiary companies increased from $1,311 million to $2,477 million, total long term debt rose from $2,454 million to $4,648 million and shareholders' equity was up from $2,587 million to $3,929 million. Equity per Ordinary share increased from $35.53 at year-end 1978 to $54.39 in 1981 on 71.7 million shares outstanding during the period. The debt/equity proportions were 41/59 at the end of 1978 and 44/56 at year-end 1981. Interest coverage on total long term debt was 6.5 times in 1979, 6.6 times in 1980 and 4.6 times in 1981. Income per Ordinary share declined from $7.06 in 1979 to $6.75 in 1981, while dividends per Ordinary share increased from $1.70 to $1.90.

In financing the Company's additions to properties in 1981, funds from operations were supplemented mainly by the issuance of new debt.

Among the transportation businesses, a total of $108 million came from the issuance of railway equipment trust certificates, $192 million was provided by term loans mainly from the Export-Import Bank of the U.S. for the acquisition of aircraft, $16 million from a mortgage on a new product tanker delivered in 1981 and $32 million through the leasing subsidiary of a major bank for acquisition of a container vessel.

On October 1, 1981, Canadian Pacific Enterprises Limited completed the purchase of all outstanding shares of Canadian International Paper Company for Canadian $1.1 billion. The acquisition was financed by bank term loans amounting to $850 million, with the balance provided by internal sources.

Of the companies of Enterprises, PanCanadian acquired a 35% interest in a methanol plant. The total cost to PanCanadian of the acquisition is $130 million, of which $93.5 million was paid in 1981. Financing came from term bank borrowings. PanCanadian also raised Canadian $65 million through a seven year debenture issue in the European market. Cominco purchased additional shares of Bethlehem Copper Corporation and Valley Copper Mines Limited, completed the Polaris zinc-lead project, and continued the expansion and modernization programs. These and other investments were financed partially by increases in long term loans of $238 million. Cominco also raised $99 million through a common stock rights issue. AMCA International arranged loans aggregating $262 million, of which $188 million was drawn down during the year. Proceeds were used to finance working capital and fixed assets. Marathon Realty obtained loans totalling $194 million to finance new projects and retire construction loans.

At the end of 1981, commitments for the Company's capital expenditures amounted to $1,821 million.

The Company's proposed capital program for 1982 totals $2.8 billion, but not all of this is planned to be spent during the year. Capital expenditures on rail-related projects are principally for improvement of the road property, but also for additional freight cars.

The program also includes expenditures extending through 1985 for new aircraft, support equipment and ground facilities. Financing will be provided through loans from the Export-Import Bank of the United States, commercial bank loans and internally generated funds.

The shipping program provides for the purchase of four new "Panamax" bulk carriers, of which two are scheduled for delivery in 1982 and two in 1983. The ships are to be 80% financed by export credit. Two loans will be secured by bank guarantees and two by mortgages on the ships. The balance will come from internally generated funds. The program also provides for expansion of existing terminal facilities, and for improvements to the Voyageur class container vessels.

Cominco is continuing with the modernization and expansion of its metallurgical plants at Trail, B.C. and with the modernization of its Sullivan mine at Kimberley, B.C., and has in hand a program to increase capacity of its potash facilities in Saskatchewan. These projects are to be financed from internal funds and bank loans.

A subsidiary of CIP Inc. is modernizing and expanding its Dalhousie, N.B. newsprint facilities, with financing being arranged with banks.

The modernization and expansion program of Great Lakes Forest Products is reaching its mid-point in 1982. Funds are to be provided internally and through lines of credit.

Algoma Steel is embarked on construction of a new seamless tube mill to be in production in 1984. Financing of this is expected to be mainly through construction loans convertible into term loans. The steel company recently filed an updated preliminary prospectus for an issue of long term sinking fund debentures; proceeds would be used for general corporate purposes including the continuing capital program.

Capital expenditures by Marathon Realty are for office buildings, shopping centres and industrial parks under construction. These projects are being financed mainly through long term mortgage commitments and short and medium term loans.

The Company's total unused commitments at the end of 1981 for long term financing amounted to $1,993 million, at interest rates varying from 8% to 14% on $415 million and from prime to prime plus 1¼% on the balance, with commitment fees on $1,357 million ranging from ¼% to ¾%. Total unused lines of credit for short term financing, subject to customary right of review at any time, totalled $839 million.

CP Rail crew lays continuous welded rail on a section of new line between Lake Louise, Alta. and Stephen, B.C. The project was part of $45 million worth of construction completed in 1981 to increase main line capacity in Alberta and British Columbia.

Review of Operations

CP Rail

CP Rail's net income amounted to $127.2 million in 1981. This was an increase of $5.6 million over 1980 and of $18.5 million over 1979. The rates of return earned on net rail investment, on a comparable basis, were 7.6% in each of 1981 and 1980 and 7.5% in 1979. The inadequacy of this level of return is mainly due to the non-compensatory rate imposed for transporting export grain from Western Canada.

Total revenues were $2,071.0 million in 1981, up from $1,773.6 million in 1980 and $1,619.0 million in 1979. Increases in both 1981 and 1980 were largely attributable to higher freight revenue. In 1981 freight revenue rose $245.2 million due primarily to improved prices charged for freight services. Revenues from coal were up substantially over 1980 when a strike affected a major customer. Significant gains were also realized in revenues from iron and steel, piggyback, containers and liquefied petroleum gas. In addition, Government payments in 1981 included amounts related to prior years for the operation of uneconomic branchlines. In 1980 freight revenue increased $148.9 million over 1979, due mainly to improved prices; volume was little different.

Rail expenses totalled $1,943.8 million in 1981, compared with $1,652.0 million in 1980 and $1,510.3 million in 1979. The additional expenses in 1981 and 1980 reflected largely escalation of fuel and material prices, and labour rates. The average price of fuel rose 47% in 1981, mainly as a result of the Federal Government's energy program. This followed an increase in fuel prices of some 30% in 1980. Salary and wage rates were up an average of some 13% in 1981 and 12% in 1980.

Results of CP Rail in the first quarter of 1982 will be adversely affected by the severe weather experienced during the winter and by the depressed economic conditions prevailing in North America. Rail earnings will readily respond to economic recovery, which is not expected until after mid-year. Labour agreements with the railway unions covering three years expired on December 31, 1981; negotiations are in progress.

The new 5.5 mile section of second main track between Lake Louise and Stephen, B.C., was brought into service in July 1981. This brings to twenty-one the number of miles of second track CP Rail has constructed in the Rockies since 1977 to expand capacity in the high density Calgary-Vancouver corridor. During 1981, 75 new diesel locomotives costing $77 million and 500 covered hopper cars purchased for $26 million were added to the CP Rail fleet.

CP Air

CP Air incurred a net loss of $22.8 million in 1981, after payment of preference dividends. This contrasted with profits of $2.8 million in 1980 and $13.1 million in 1979.

Dividends on the outstanding preference shares amounted to $5.3 million in 1981, $4.0 million in 1980 and $3.2 million in 1979.

Total revenue of $827.6 million in 1981 was up from $698.2 million in 1980 and $555.4 million in 1979. Of the increase in 1981, approximately 90% was attributable to higher passenger revenues, reflecting mainly improved yields and, to a lesser extent, greater traffic volume. Despite the improvement, yields remain at an unprofitably low level on a number of routes due to competitive pressures. Cargo and charter revenues were also higher. About 70% of the 1980 increase was due to passenger revenue growth from both greater volume and improved yields. There was a substantial increase in charter revenue in 1980.

CP Air began scheduled service to Halifax in March 1981 and to Victoria in June 1981, thereby extending its transcontinental service network coast-to-coast. Late in 1981, CP Air was awarded the right to serve Saskatoon and Regina; scheduled service is expected to start in 1982. Services to Mexico and Athens were suspended due to unsatisfactory financial performance. Empress Class service for business and other full-fare economy passengers was extended to all cross-Canada flights as well as to flights to Europe and the South Pacific. CP Air's low-fare domestic SkyBus service was also expanded.

Expenses amounted to $845.1 million in 1981, up from $691.4 million in 1980 and $539.1 million in 1979. The major portion of the expense increases since 1979 was attributable to higher costs of fuel and labour. Fuel expenses increased $59 million, or 51%, in 1980, followed by a further $58 million, or 33%, in 1981.

Modern CP Air ticket office is typical of improved facilities available to customers in major city centres across Canada.

CP Ships officers man the bridge of the containership CP Ambassador, a high-speed, fuel efficient vessel operating on the North Atlantic between Canada, the United Kingdom and Europe.

The average price of fuel was up 44% in 1980; in 1981 the increase was 34%, due partly to the impact of various fuel taxes introduced by both Federal and Provincial governments in Canada. While fuel consumption increased 7% in 1980, there was a decrease of 2% in 1981 reflecting the operation of more fuel-efficient aircraft. Expenses for salaries, wages and benefits rose $40 million, or 22%, in 1980 and a further $45 million, or 20%, in 1981. There were significant increases in depreciation and interest charges, reflecting mainly the acquisition of aircraft and equipment, but also higher interest rates. During 1982 all labour contracts with organized employee groups will be open for negotiation.

Reflecting the economic recession, business and pleasure travel are likely to remain depressed through most of 1982. In view of this and the fact that costs, especially of fuel, continue to rise, cost reduction programs are under way and routes are being assessed and action taken to improve both short and long term profitability.

CP Ships

Income from the Bulk Shipping and Container Operations of CP Ships amounted to $43.8 million in 1981. This was a decrease of $8.6 million from 1980, but an increase of $17.5 million over 1979.

Bulk Shipping Operations

Net income from Bulk Shipping Operations amounted to $44.0 million, down $7.4 million from 1980, but up $19.0 million over 1979. Included in income for 1981 were net gains totalling $14.1 million on the sale of vessels; income in 1980 included net gains totalling $4.7 million on similar sales.

Total revenue, including the gains on sale of vessels, amounted to $184.5 million in 1981, compared with $194.3 million in 1980 and $133.1 million in 1979. The lower revenue in 1981 was attributable to the recession in international shipping markets, with consequent conditions of over-supply and substantially reduced rates in all vessel categories. In 1980 revenues were up, reflecting firmer shipping conditions, a greater number of vessels trading, and the company's ability to capitalize on comparatively attractive spot rates through its policy of pursuing varied employment patterns for its ships.

Shipping markets are expected to remain weak in 1982. Dry cargo markets have been worsening since the beginning of 1981, and the conditions of over-supply for both bulk carriers and tankers persist.

Expenses amounted to $140.5 million, compared with $142.9 million in 1980 and $108.1 million in 1979. The reduction in 1981 reflects savings resulting from the winding down of a subsidiary company, as well as the favourable effects of the lower value of the pound sterling in relation to the U.S. dollar. The higher expenses in 1980 reflected the expanded fleet but also the adverse effects of inflation on costs and of the higher value of sterling in relation to the U.S. dollar.

Container Operations

The year was one of transition for the Company's Container Operations. Canadian Pacific in conjunction with Dart Canada and Manchester Liners commenced operation in August of a co-ordinated container service between Canada and Europe, serving the ports of Felixstowe, Hamburg, Antwerp, Le Havre and Montreal. The new service became fully operational late in December. The service involves the operation of four large container vessels, with each of the three participants owning one vessel and the fourth being chartered jointly. Space on the vessels is shared among the three participants.

Agreement has also been reached for Canadian Pacific to purchase a one-third interest in an enterprise providing container shipping service between the U.S. east coast and Western Europe. This will be implemented as soon as regulatory approvals are received. At present, a container vessel purchased by the Company and another vessel in which it has purchased a one-third interest are chartered to the enterprise carrying on the USEC service.

The three Voyageur class vessels previously operated by Canadian Pacific in the North Atlantic service were chartered out early in 1982 for a period of twelve to eighteen months.

A net loss of $197,000 was incurred by Container Operations in 1981. This compared with profits of $919,000 in 1980 and $1.3 million in 1979.

The reversal in 1981 reflected higher expenses, including development costs of the new service, and the effects of the recession. Weakening economic conditions in Europe and North America were reflected in a reduction of 2% in container carryings. At the same time, rate levels were under pressure as competition for the available traffic intensified.

The decrease in income in 1980 reflected higher expenses and the effects of the general trade depression on traffic volume and rate levels.

CP Trucks

Canadian Pacific Express & Transport Ltd.

Canadian Pacific Express & Transport made a profit of $4.9 million in 1981, compared with losses of $2.1 million in 1980 and $2.7 million in 1979.

Although every division showed improvement in 1981, it was the CP Transport division that contributed most to the turnaround. That division's results reflected better operating efficiency and improved marketing efforts. This success was achieved despite slow economic conditions and intense competitive pressures.

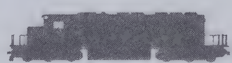
The CP Express division benefited from expense control, an aggressive sales program undertaken during the year, and the termination of a service by a competitor.

The bulk division had strong expansionary growth, despite labour disruptions in the British Columbia forest industry which adversely affected business volume. The CanPar division also made significant gains during the year.

The loss in 1980 was lower than in 1979 when a series of labour disputes interrupted operations.

CanPac International Freight Services Inc.

Net income of CanPac IFS was $550,000 in 1981, compared with $574,000 in 1980 and $845,000 in 1979. The decrease in 1980 was due chiefly to the shipping agency division.



Soo Line Railroad Company

Net income from the Company's 55.7% interest in Soo Line Railroad amounted to $23.0 million in 1981. This compared with $23.1 million in 1980 and $17.8 million in 1979.

Total revenues of Soo Line amounted to $414.3 million, up from $380.1 million in 1980 and $349.7 million in 1979. The additional revenues over the period reflected increases in freight rates. Freight traffic volume declined 7% in 1980 and a further 7% in 1981, as the economic recessions in both years affected most commodity groups.

Expenses totalled $373.0 million in 1981, $338.6 million in 1980 and $317.7 million in 1979. Increases in both 1980 and 1981 were primarily the result of escalation of fuel and material prices, higher labour rates and expanded track maintenance programs; these more than offset reductions due to lower volume and effective cost control. The average price of fuel rose 41% in 1980 and a further 23% in 1981; wage and fringe benefit rates increased 11% in 1980 and another 12% in 1981.

CP Telecommunications

CP Limited's share of income from the CNCP Telecommunications partnership amounted to $4.9 million in 1981, virtually unchanged from 1980. Income in 1980 was down $1.0 million from 1979, as expenses included the cost of financing additional investment in plant and equipment.

The Company's revenues from telecommunications amounted to $136.9 million in 1981, up from $123.1 million in 1980. The increase was mainly attributable to higher volumes in telex, leased services and public

Forklift operator loads semi-trailer at CP Transport terminal in Toronto.

The nationwide communications facilities of CNCP Telecommunications are monitored 24 hours a day at network management control centre in Toronto.

Drillers work on a rig at PanCanadian Petroleum well site near Rimbey, Alta.

message service, and, to a lesser extent, better rates. Expenses amounted to $132.0 million in 1981, up from $118.1 million in 1980. The major portion of the expense increase was due to higher costs, particularly for wages and benefits and for leased facilities.

Revenues and expenses in 1980 cannot be usefully compared with those of 1979, when the partnership arrangement was not in effect.

Miscellaneous Income

Miscellaneous income amounted to $17.0 million in 1981, essentially unchanged from 1980 and up from $3.5 million in 1979.

In 1981, interest and exchange income increased, but this was offset by higher interest charges and by lower gains on sales of properties including the Northern Alberta Railways Company. Of the $13.4 million increase in 1980, $4 million was attributable to dividends from NAR and $8.3 million represented the net gain on the sale of CP Limited's 50% interest in that company.

Canadian Pacific Enterprises Limited

Net income from Canadian Pacific Enterprises Limited, representing a 70.7% share, amounted to $287.0 million in 1981. This was $75.9 million lower than in 1980 and $47.5 million less than in 1979.

Total revenues as reported by Enterprises reached $8,559 million in 1981, compared with $6,659 million in 1980 and $5,298 million in 1979. Expenses totalled $7,934 million in 1981, up from $5,919 million in 1980 and $4,625 million in 1979.

The following analysis should be read along with the statement providing details of Enterprises' net income on pages 32 and 33.

Oil and Gas

Income of Enterprises from PanCanadian Petroleum amounted to $177.4 million in 1981, compared with $210.2 million in 1980 and $144.4 million in 1979. Revenues of PanCanadian in 1981 increased $67 million over 1980, due chiefly to higher prices for crude oil and other products. In 1980, revenues rose $151 million primarily due to increased product prices, and a full year of commercial oil production from the Syncrude tar sands plant.

Expenses of PanCanadian were up $105 million from 1980. The increase reflected the 8% Petroleum and Gas Revenue Tax, in effect since January 1, 1981, and general inflation of costs. In 1980, expenses were up $75 million due to a full year's production from Syncrude, cost inflation and the effect on taxes of the 5% surcharge on corporate income imposed by the Federal Government.

Energy pricing and taxation agreements between the governments of Canada and of the producing provinces were finalized late in 1981. The agreements, which cover the period September 1981 to December 1986, introduce separate schedules of price increases for "old" oil – oil discovered prior to 1981 – and for "new" oil – oil discovered after December 31, 1980. The prices are subject to upper limits in that the average price of old oil is not to exceed 75% of international prices and that of new oil is not to exceed 100% of international prices.

The agreements also provide for the Petroleum and Gas Revenue Tax to increase from 8% to 16% and introduce a tax of 50% on the incremental revenues, after related provincial royalties and other levies, on conventional old oil over what would have been received under the National Energy Program.

Mines and Minerals

Income from Enterprises' 54.4% interest in Cominco Ltd. amounted to $35.6 million, a decrease of $50.8 million from 1980 and of $73.5 million from 1979. Revenues of Cominco totalled $1,464 million in 1981, a decrease of $17 million from the previous year. The decline reflected mainly reduced silver, lead and gold prices, and lower sales volumes of silver, gold, refined lead and electric power. In 1980, revenues rose $171 million due primarily to higher prices for gold, silver, potash, chemicals and fertilizers; lead prices however were down almost 20%,and sales volumes of refined lead and lead concentrates were lower.

Cominco's expenses amounted to $1,380 million in 1981, up $83 million from 1980, as a result of higher production costs, due mainly to labour, energy and supplies, increased distribution expenses and higher interest costs. Expenses in 1980 rose $220 million, reflecting chiefly higher raw material costs.

Fording Coal, owned 60% by Enterprises and 40% by Cominco, had a net loss of $2.2 million in 1981, in contrast to profits of $14.7 million in 1980 and $14.2 million in 1979. The drop in 1981 results was due to a lower yield of clean coal and higher operating costs which more than offset the benefits of improved selling prices and greater volume.

Net income from Steep Rock Iron Mines, representing a 77.5% ownership by Enterprises, amounted to $2.8 million in 1981, compared with $2.2 million in 1980 and $9.6 million in 1979. In 1979, income included gains on disposal of fixed assets following the termination of mining and pelletizing operations.

Forest Products

Enterprises' income from Great Lakes Forest Products, 54.3% owned, amounted to $41.8 million in 1981 compared with $43.9 million in 1980 and $26.8 million in 1979.

Revenues of Great Lakes, amounting to $578 million, were $33 million higher than in 1980. The increase was mainly attributable to higher prices for all of the company's products, but also to a more favourable rate of exchange premium on the U.S. dollar. In 1980, revenues rose $203 million due primarily to higher sales volumes reflecting the operation of the Dryden mills acquired in December 1979.

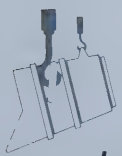
Great Lakes' expenses of $501 million in 1981 were up $36 million over 1980, due to general cost inflation, especially for energy, supplies, transportation and labour. In 1980 expenses rose $172 million, attributable mainly to the inclusion of the Dryden operation.

Pacific Forest Products had a loss of $6.0 million in 1981, compared with profits of $1.3 million in 1980 and $20.6 million in 1979. The downturn over the period reflected steadily weakening markets for logs and lumber that began in 1980 and continued cost escalation.

CIP Inc., acquired on October 1, 1981, had a loss of $19.7 million over the three-month period, mainly because of poor markets and high interest costs.

Newsprint rolls produced at Great Lakes Forest Products plant in Thunder Bay receive final inspection prior to being wrapped and shipped to customers.

Quality control inspector uses ultrasonic testing equipment to check seamless casing at Algoma Steel's tube mill in Sault Ste. Marie, Ont.



Iron and Steel

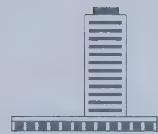
Income of Enterprises from its 57.6% interest in Algoma Steel increased to $87.7 million in 1981 from $55.3 million in 1980 and $54.4 million in 1979. Total revenues of Algoma Steel, which include its 42.7% share of earnings of AMCA International Limited, reached $1,475 million in 1981. This was an increase of $295 million over 1980, due mainly to higher steel selling prices, but also to increased sales volume and an improved product mix. In 1980, revenues were up $70 million, due to higher selling prices and a more favourable product mix.

Algoma's expenses amounted to $1,310 million in 1981, up $239 million over 1980; expenses in 1980 rose $71 million. The increases were attributable largely to cost inflation.

In addition to its interest in Algoma's 42.7% share of the income of AMCA International, formerly Dominion Bridge Company, Limited, Enterprises has a 9.4% direct holding which accounted for $5.9 million of net income in 1981. This was essentially the same as in 1980 and 1979, due to the impact of unrealized exchange differences on translation of AMCA's accounts into Canadian dollars.

AMCA's total revenues rose $641 million in 1981; the increase in 1980 over 1979 was $137 million. Total expenses were up $641 million in 1981; in 1980 expenses increased $131 million. These increases reflected for the most part the acquisition of Koehring Company in September 1980.

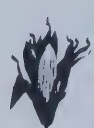
Real Estate



Income from Marathon Realty of $24.0 million was up $3.0 million over 1980 and $4.8 million over 1979.

Total revenues of Marathon Realty increased $33 million over 1980. Approximately half of the increase was due to the real estate interests of Norin Corp. acquired in July 1980, and the balance came mainly from increased rentals from existing buildings and from the operation of new buildings. In 1980 revenue rose $64 million, largely the result of the acquisition of Canadian Freehold Properties in December 1979, and new buildings which became operational during 1980.

Expenses of Marathon were up $30 million over 1980. This increase reflected higher expenses from existing buildings, the operation of new buildings, the acquisition of the Norin properties, higher interest costs and increased income taxes. In 1980, expenses were up $62 million due primarily to the acquisition of Canadian Freehold.



Agriproducts

Income from Maple Leaf Mills Limited amounted to $14.6 million in 1981, up from $6.3 million in 1980. Maple Leaf was acquired in July 1980; therefore income in 1981 represents a full year's results compared with only six months in 1980.

Other Businesses

CP Hotels earned $12.1 million in 1981, up $5.2 million over 1980 and $11.2 million over 1979. Revenues of CP Hotels amounted to $256 million in 1981, up $24 million over 1980, due largely to higher room rates and increased food prices. In 1980, revenues rose $21 million, mainly the result of improved room rates and food prices, but also because of greater business volume.

Total hotel expenses amounted to $244 million in 1981. Increases of $19 million over 1980, and of $15 million over 1979 were primarily due to inflation of costs.

Financial

Chateau Insurance, owned 99.98% by Enterprises, had losses of $10.3 million in 1981, $933,000 in 1980 and $1.1 million in 1979. The deterioration reflected unfavourable claims experience and severe competitive pressures.

Net income from Corporate activities of Enterprises amounted to $22.2 million in 1981, compared with $29.6 million in 1980, and $8.9 million in 1979. Income in 1980 included a net gain of $13 million on the sale of Enterprises' 13.4% interest in MacMillan Bloedel Limited; interest income increased in both 1981 and 1980.

Inflation

Effects of Changing Prices and Inflation

From first hand experience businessmen know that business is a prey to inflation, not its beneficiary; they understand that, over time, even the strongest enterprise can be weakened by inflation. Thus while they have no enthusiasm for restrictive monetary policies or high interest rates, they doubt profoundly that there are any easy ways to break inflation's hold on the economy. The alternative of giving up the fight and attempting to learn to live with inflation offers no inviting prospects.

Inflation in Canada worsened in 1981, due in part to special factors which have impacted business severely. Sharply higher energy prices and interest rates were the most significant factors propelling business costs upward. The increase in the price of fuel was of the order of 45% and the prime rate of interest was up from an average of 14.25% in 1980 to 19.25% in 1981.

In the face of continuing inflation, business managements have had to find ways of shielding their companies from its most damaging effects. In the case of Canadian Pacific these include implementation of various measures designed to improve productivity, such as modernization programs or expansion or, in some cases, contraction of capacity. The measurement of profitability of products or services on the basis of replacement costs has proven to be an invaluable aid in this process. With such information, rational and realistic decisions are more likely on pricing as well as on allocation of existing resources among competing needs.

The problem of how to adjust the traditional historically based financial accounts of companies to reflect inflation still awaits a satisfactory solution. After a number of years of research the U.S. Financial Accounting Standards Board adopted rules requiring disclosure beginning effectively with 1980 accounts of supplementary data showing adjustments for the effects of changing prices. The adjustments are required on two bases – constant dollar and current cost. Late in 1981 the Canadian Institute of Chartered Accountants published its revised proposal for reporting the effects of inflation on financial results. The basis it proposes is current cost and the target date for implementation is the end of 1982. It is widely understood that the usefulness of results produced will at the outset be limited, and improvements in methods and presentation will have to continue to be pursued.

The broad diversification of the Company's interests exposes it to a wide variety of experience with inflation. On the investment side, there has been a sharp increase in the number of dollars required to maintain and modernize productive capacity and undertake a desirable level of expansion. On the operations side, transportation activities and revenues are subject to varying degrees of government intervention. In the case of trucks, telecommunications and air, the workings of the regulatory process may delay price action so that prices lag behind cost increases. In the case of rail the main limitation is the low rate for carrying grain in Western Canada that is imposed by statute. In contrast, shipping rates are determined solely by the market place. As a result of both intense competition in a limited market and the rate actions of non-conference operators, container shipping revenues have not kept pace with cost increases. Bulk shipping markets are currently depressed and it appears certain that 1982 rates will not cover increased costs.

World market conditions are the most important influence on many of the products that contribute significantly to revenues of Enterprises – such as base and precious metals, lumber, newsprint and pulp. Oil is somewhat different in that in Canada it is regulated by Federal and Provincial governments. While still significantly below international levels, Canadian oil prices are scheduled to continue to rise towards those levels. However, because of the imposition of higher taxes, the main beneficiaries will be governments. In the case of coal, most of the coal mined by Enterprises' coal subsidiary is sold to Japanese steel producers under long term contract. An increase in price will be sought in the new contract when it is renegotiated in April. This is necessary to offset increases in production costs. In the forest product group, present prices of pulp and newsprint would be inadequate to cover the escalation of costs expected in 1982; improvement in lumber prices awaits a revival in housing starts. In the iron and steel group, productivity improvements and product selling prices were sufficient last year to offset current cost increases. For real estate, higher operating costs can be substantially recovered because of escalation clauses contained in tenant leases.

Summary of Significant Accounting Policies

General

Basic financial reporting and consolidation policy

Canadian Pacific Limited (CP Limited) carries on transportation and related enterprises directly and through subsidiaries, in Canada and internationally. CP Limited also holds 100,000,000 common shares of Canadian Pacific Enterprises Limited (Enterprises) representing 70.74% of its common shares at December 31, 1981 (71.09% at December 31, 1980 and 75.81% at December 31, 1979). Enterprises, through various subsidiary companies, carries on development of extensive natural resource properties and engages in manufacturing and other activities in Canada and abroad.

The financial statements of all subsidiary companies except those of a finance company, which is accounted for on the equity basis, are included in the consolidated financial statements of CP Limited and have been prepared in accordance with accounting principles generally accepted in Canada. The significant differences between Canadian and United States generally accepted accounting principles, insofar as they apply to the Company, are described under Supplementary Data. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

The statement of consolidated income on page 27 is designed to present clearly CP Limited's income from its transportation related activities and from its holding in Enterprises. Income from transportation is segregated between the major functions – rail, air, ships, trucks, Soo Line Railroad Company and telecommunications. A breakdown of income by function for the operations carried on by Enterprises is presented on page 32. The significant accounting policies of each group are described below, and should be read in conjunction with the consolidated financial statements and the notes thereto.

Foreign exchange

Current assets and current liabilities have been translated from foreign currencies into Canadian dollars at current rates. Fixed assets, related depreciation, depletion and amortization and long term debt (excluding the current portion) have been translated at historical rates. Revenues and expenses (except depreciation, depletion and amortization which are translated at historical rates) have been translated at average rates in effect during the year. Gains or losses on exchange are included in income.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Transportation

Income reporting by function

CP Limited operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, comprising mainly a 50% share of the CNCP Telecommunications partnership, are departments of CP Limited. CP Air (Canadian Pacific Air Lines, Limited), CP Ships (Canadian Pacific Steamships, Limited and Canadian Pacific (Bermuda) Limited) and CP Trucks (Canadian Pacific Express & Transport Ltd. and CanPac International Freight Services Inc.) are operated through subsidiary companies in which the Company owns 100% of the common shares; the Soo Line Railroad Company is 55.69% owned.

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Services provided by CP Rail to other profit centres yielded revenues in 1981 of $248,000,000 (1980 – $198,000,000; 1979 – $160,000,000). There were no other significant inter-company services provided by the transportation group. CP Limited's rent for leased railways is assigned to CP Rail. Other interest paid by CP Limited is allocated to CP Rail, CP Telecommunications and Miscellaneous as appropriate. Interest paid by other transportation companies is charged to their respective profit centres.

CP Limited's income taxes are allocated to CP Rail, CP Telecommunications and Miscellaneous on the basis of their accounting incomes as adjusted for non-taxable items. Taxes of other transportation companies are charged to their respective profit centres.

Properties

Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following which are charged to expenses:

1. Labour costs relating to track structure replacements.
2. Renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for Class 1 Common Carriers by Railway of the Canadian Transport Commission.

Depreciation

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the Canadian Transport Commission and by the Interstate Commerce Commission for the Soo Line Railroad Company; for telecommunications properties, the rates used are as authorized by the Canadian Radio-television and Telecommunications Commission. When depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of properties are as follows:

	Years
Railway	
– road diesel locomotives	20
– freight cars	30
– ties	29
– rails	50
Ships	20 to 25
Aircraft	14
Telecommunications equipment	7 to 18
Trucks	5 to 12

Canadian Pacific Enterprises Limited

Income reporting by function

The financial statements of all subsidiary companies are consolidated in the financial statements of Canadian Pacific Enterprises Limited (Enterprises) except those of a finance company, which is accounted for on the equity basis. The classes of business are based upon the major activities of significant subsidiaries, and the principal companies included in each class are as follows:

Percentage Ownership by Enterprises December 31

	1981	1980	1979
Oil and Gas			
PanCanadian Petroleum Limited	87.08%	87.08%	87.08%
Mines and Minerals			
Cominco Ltd.	54.35	53.64	53.75
Fording Coal Limited			
Enterprises	60	60	60
Cominco	40	40	40
Steep Rock Iron Mines Limited	77.50	77.28	77.11
Forest Products			
CIP Inc.	100	—	—
Great Lakes Forest Products Limited	54.28	54.28	54.01
Pacific Forest Products Limited	100	100	100
Commandant Properties, Limited	100	100	100
Iron and Steel			
The Algoma Steel Corporation, Limited	57.63	56.77	54.97
AMCA International Limited*			
Enterprises	9.37	9.38	9.46
Algoma	42.74	42.80	43.15
Real Estate			
Marathon Realty Company Limited	100	100	100
Agriproducts			
Maple Leaf Mills Limited	100	100	—
CanPac AgriProducts Limited	100	100	100
Rothsay Concentrates Co. Limited**	—	100	100
Other Businesses			
Canadian Pacific Hotels Limited	100	100	100
Syracuse China Corporation	100	100	100
Processed Minerals Incorporated	100	100	100
Financial			
Canadian Pacific Enterprises Limited – Corporate activities			
Canadian Pacific Securities Limited	100	100	100
Chateau Insurance Company	99.98	99.96	99.96
Canadian Pacific Enterprises (International) B.V.	100	100	100
Canadian Pacific Enterprises (U.S.) Inc.	100	100	100
Canadian Pacific Enterprises (Finance) N.V.***	100	100	100

*Prior to June 1, 1981, the name of this company was Dominion Bridge Company, Limited.

**This company was merged with Maple Leaf Mills Limited effective January 6, 1981.

***Prior to January 19, 1981, the name of this company was Canellus Finance N.V.

The Algoma Steel Corporation, Limited (Algoma) supplies structural steel and plate to AMCA International Limited. In reporting the results of Iron and Steel operations in the analysis of Enterprises' operations on page 32, the following amounts have been eliminated from sales and operating revenue and from expenses: 1981 – $51,010,000; 1980 – $44,380,000; 1979 – $36,712,000. Until the cessation of its mining and pelletizing operation in 1979, Steep Rock Iron Mines Limited (Steep Rock) supplied iron ore pellets to Algoma, which amounted to $35,208,000 in 1979. This amount, together with inter-company interest charges amounting to $42,561,000 in 1981, $25,243,000 in 1980 and $22,149,000 in 1979, have not been eliminated in the analysis of Enterprises' operations in order to present fairly the results by activity. Enterprises' net income is not affected by this practice. Steep Rock's transactions with Algoma and inter-company interest charges have been eliminated from Enterprises' revenues and expenses in the CP Limited Statement of Consolidated Income on page 27. There are no other significant inter-company charges within the Enterprises group of companies.

Inventories

Products, work in process and raw materials of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Supplies are valued at cost less appropriate allowances for obsolescence.

Finished products of Iron and Steel and work in process related to steel making operations are valued at the lower of cost and net realizable value. Work in process related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to Forest Products and Agriproducts) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for oil and gas properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Interest on funds borrowed to finance major projects is capitalized during the construction period.

Accounting for mining properties

Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation, together with the cost of certain investments in mineral companies, are amortized against earnings by charges for depletion. Abandoned properties are written off in the year of abandonment. Depletion on operating mines is provided on a unit of production or on a time basis based on the mineral reserves position.

Interest on specific borrowings to finance major expenditures for fixed assets is capitalized during the construction period.

Accounting for iron and steel properties

Depreciation of manufacturing plant and equipment is provided on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Mining equipment and mine development are either depreciated on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives or are amortized on a unit of production basis over the estimated recoverable raw material reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Accounting for real estate properties

All operating and carrying costs net of rental revenues are capitalized for all income producing properties until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time.

Land under development and held for development is carried at cost, including carrying costs, principally real estate taxes and interest. Buildings and construction in process are carried at cost including real estate taxes, interest and initial leasing costs.

The sinking fund method of providing depreciation is used for the majority of buildings. This method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Accounting for other properties

Depreciation and amortization of other properties are charged to earnings, either on a straight-line or on a unit of production basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under Forest Products and Other Businesses is capitalized during the construction period.

Auditors' Report

To the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1981 and 1980 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981 in accordance with generally accepted accounting principles in Canada consistently applied.

Price Waterhouse,
Chartered Accountants,
Montreal, Quebec,
March 5, 1982.

Statement of Consolidated Income

For the Year ended December 31	**1981**	1980	1979
		in thousands	
CP Rail			
Revenues (Note 1)	**$ 2,070,977**	$ 1,773,593	$ 1,619,031
Expenses including income taxes	**1,943,809**	1,651,998	1,510,294
Net income	**127,168**	121,595	108,737
CP Air			
Revenues	**827,572**	698,251	555,417
Expenses including income taxes	**845,067**	691,412	539,083
	(17,495)	6,839	16,334
Preference dividend	**5,286**	3,986	3,214
Net income	**(22,781)**	2,853	13,120
CP Ships			
Revenues	**336,203**	338,775	255,645
Expenses including income taxes	**292,421**	286,415	229,325
Net income	**43,782**	52,360	26,320
CP Trucks			
Revenues	**291,546**	243,240	211,725
Expenses including income taxes	**286,080**	244,767	213,586
Net income	**5,466**	(1,527)	(1,861)
Soo Line Railroad Company			
Revenues	**414,335**	380,067	349,694
Expenses including income taxes	**373,021**	338,631	317,734
	41,314	41,436	31,960
Minority interest	**18,306**	18,360	14,161
Net income	**23,008**	23,076	17,799
CP Telecommunications			
Revenues	**136,898**	123,056	98,215
Expenses including income taxes	**131,962**	118,101	92,210
Net income	**4,936**	4,955	6,005
Miscellaneous			
Net income	**16,993**	16,898	3,527
Transportation and Miscellaneous			
Net income	**198,572**	220,210	173,647
Canadian Pacific Enterprises Limited (Note 2)			
Revenues	**8,558,759**	6,659,250	5,297,895
Expenses including income taxes	**7,934,283**	5,918,725	4,625,019
	624,476	740,525	672,876
Minority interest	**337,469**	377,578	338,381
Net income	**287,007**	362,947	334,495
Net Income	**$ 485,579**	$ 583,157	$ 508,142
Earnings per Ordinary Share	**$ 6.75**	$ 8.11	$ 7.06

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31	**1981**	1980	1979
		in thousands	
Balance, January 1	**$ 2,845,438**	$ 2,328,050	$ 1,934,107
Net income for the year	**485,579**	583,157	508,142
Gain arising from the net increase in shareholders' equity of a subsidiary due to the issuance of common shares and the cancellation of preferred shares	**1,583**	72,215	12,698
	3,332,600	2,983,422	2,454,947
Commission and expenses relating to the issuance of common shares by a subsidiary company net of:			
Income tax			
1980 — $4,970,000; 1979 — $3,495,000			
Minority interest			
1980 — $1,375,000; 1979 — $915,000	**—**	3,381	2,872
Dividends			
7¼% Preferred shares	**1,234**	1,471	1,650
4% Preference stock	**542**	557	549
Ordinary stock (per share: 1981 — $1.90; 1980 — $1.85; 1979 — $1.70)	**136,158**	132,575	121,826
Total Dividends	**137,934**	134,603	124,025
Balance, December 31	**$ 3,194,666**	$ 2,845,438	$ 2,328,050

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	1981	1980	1979
		in thousands	
Source of Funds			
Net income	**$ 485,579**	$ 583,157	$ 508,142
Depreciation, depletion and amortization	**559,772**	478,305	421,248
Deferred income taxes	**344,256**	250,814	202,713
Minority interest in income of subsidiaries	**361,061**	399,924	355,756
Funds from operations	**1,750,668**	1,712,200	1,487,859
Sales of investments	**15,301**	118,238	14,877
Issuance of long term debt	**2,071,856**	447,764	484,953
Issuance of shares by subsidiaries	**53,665**	297,467	222,783
Proceeds from disposal of properties	**99,136**	90,364	144,169
Sundries, net	**13,521**	14,577	(19,512)
Working capital of subsidiaries acquired and consolidated	**257,403**	289,016	14,872
	$ 4,261,550	$ 2,969,626	$ 2,350,001
Application of Funds			
Additions to properties	**$ 2,322,727**	$ 1,585,033	$ 1,219,866
Additions to investments	**101,338**	18,375	36,629
Investment in subsidiaries acquired and consolidated	**1,112,665**	361,852	112,357
Reduction in long term debt	**407,058**	348,629	371,607
Reduction of minority shareholders' interest in subsidiaries	**13,314**	8,559	8,144
Preferred shares purchased for cancellation	**2,597**	1,967	3,243
Dividends declared	**137,934**	134,603	124,025
Dividends paid minority shareholders of subsidiaries	**174,594**	157,271	126,861
Working capital deficit of subsidiary acquired and consolidated	**—**	—	58,931
Increase (decrease) in working capital	**(10,677)**	353,337	288,338
	$ 4,261,550	$ 2,969,626	$ 2,350,001

Changes in Consolidated Working Capital

	1981	1980	1979
Current Assets			
Cash and temporary investments	**$ (391,993)**	$ 144,371	$ 328,122
Accounts receivable	**387,395**	189,472	156,539
Inventories	**481,932**	445,079	275,265
	477,334	778,922	759,926
Current Liabilities			
Bank loans	**297,441**	21,061	4,588
Accounts payable and accrued liabilities	**233,340**	352,252	297,588
Notes and accrued interest payable	**62,711**	(75,969)	102,511
Income and other taxes payable	**(77,755)**	10,784	85,100
Dividends payable	**(808)**	3,516	30,810
Long term debt maturing within one year	**(26,918)**	113,941	(49,009)
	488,011	425,585	471,588
Increase (decrease) in working capital	**$ (10,677)**	$ 353,337	$ 288,338

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31

Assets	**1981**	1980
	in thousands	
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$ 967,012**	$ 1,359,005
Accounts receivable	**1,841,127**	1,453,732
Rail materials and supplies, at cost or less	**231,969**	238,897
Other inventories (Note 7)	**1,800,218**	1,311,358
	4,840,326	4,362,992
Insurance Fund		
(approximate market $3,420,000; 1980 — $3,451,000)	**4,000**	4,000
Investments		
Portfolio (market value $103,913,000; 1980 — $108,282,000) (Note 8)	**67,337**	69,201
Other (Note 9)	**467,912**	310,341
	535,249	379,542
Properties, at cost (Note 10)		
CP Rail	**3,515,271**	3,251,424
CP Air	**960,377**	733,825
CP Ships	**689,285**	598,625
CP Trucks	**145,623**	138,665
Soo Line Railroad Company	**485,883**	457,282
CP Telecommunications	**271,140**	234,427
Miscellaneous	**27,686**	30,967
Canadian Pacific Enterprises Limited	**9,073,930**	6,691,050
	15,169,195	12,136,265
Less: Accumulated depreciation, depletion and amortization	**4,534,650**	4,133,379
	10,634,545	8,002,886
Other Assets and Deferred Charges	**316,065**	289,081
	$ 16,330,185	$ 13,038,501

Liabilities	1981	1980
	in thousands	
Current Liabilities		
Bank loans	**$ 390,906**	$ 93,465
Accounts payable and accrued liabilities	**2,100,135**	1,866,795
Notes and accrued interest payable	**401,433**	338,722
Income and other taxes payable	**181,475**	259,230
Dividends payable	**87,269**	88,077
Long term debt maturing within one year	**285,823**	312,741
	3,447,041	2,959,030
Deferred Liabilities	**166,086**	130,830
Insurance Reserve	**4,000**	4,000
Long Term Debt (Note 11)	**4,361,814**	2,684,696
Perpetual 4% Consolidated Debenture Stock (Note 12)	**292,549**	292,549
Minority Shareholders' Interest in Subsidiary Companies (Note 13)	**2,477,342**	2,251,899
Deferred Income Taxes	**1,651,984**	1,192,311
Shareholders' Equity		
Preferred shares (Note 14)		
Authorized – 22,041,376 shares of a par value of $10 each		
Issued – 1,659,588 7¼% Cumulative Redeemable Series A shares (1980 – 1,978,943)	**16,596**	19,790
Preference stock – 4% non-cumulative (Note 15)		
Authorized – an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
Issued – £853,923 in amounts of £1 and multiples thereof (1980 – £864,923)	**4,156**	4,209
– in amounts of $3 and multiples thereof	**11,074**	11,539
	15,230	15,748
Ordinary stock		
Authorized – 100,000,000 shares of a par value of $5 each		
Issued – 71,662,280 shares	**358,311**	358,311
Premium on stock	**114,717**	113,843
Other paid-in surplus (Note 16)	**229,849**	170,056
Retained income	**3,194,666**	2,845,438
	3,929,369	3,523,186
	$ 16,330,185	$ 13,038,501

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

F. S. Burbidge, Director
W. W. Stinson, Director

Notes to Consolidated Financial Statements

1. CP Rail – Revenues	1981	1980	1979
		in thousands	
Freight	**$ 1,789,864**	$ 1,544,649	$ 1,395,717
Passenger	**73,844**	68,080	61,788
Other railway	**51,288**	45,776	43,400
Coastal steamships	**21,026**	18,201	24,435
Government payments	**134,955**	96,887	93,691
	$ 2,070,977	$ 1,773,593	$ 1,619,031

2. Canadian Pacific Enterprises Limited – Net Income	1981	1980	1979
		in thousands	
Oil and Gas			
Gross operating revenue	**$ 641,922**	$ 574,687	$ 423,905
Expenses including income taxes	**438,185**	333,320	258,075
	203,737	241,367	165,830
Interest of outside shareholders	**26,323**	31,185	21,425
Net income	**177,414**	210,182	144,405
Mines and Minerals			
Gross operating revenue	**1,725,435**	1,698,480	1,532,277
Expenses including income taxes	**1,638,049**	1,502,288	1,275,907
	87,386	196,192	256,370
Interest of outside shareholders	**49,724**	97,554	126,658
Net income	**37,662**	98,638	129,712
Forest Products			
Sales and operating revenue	**1,026,614**	674,914	470,438
Expenses including income taxes	**975,888**	593,311	399,886
	50,726	81,603	70,552
Interest of outside shareholders	**34,499**	36,034	22,875
Net income	**16,227**	45,569	47,677
Iron and Steel			
Sales and operating revenue	**3,312,389**	2,382,210	2,185,316
Expenses including income taxes	**3,111,570**	2,237,273	2,043,679
	200,819	144,937	141,637
Interest of outside shareholders	**107,233**	83,731	81,414
Net income	**93,586**	61,206	60,223
Real Estate			
Gross rentals and other income	**226,989**	193,988	130,495
Expenses including income taxes	**202,688**	172,809	111,079
	24,301	21,179	19,416
Interest of outside shareholders	**274**	188	175
Net income	**24,027**	20,991	19,241

Agriproducts			
Gross operating revenue	**1,165,233**	715,587	254,856
Expenses including income taxes	**1,143,472**	705,337	249,964
	21,761	10,250	4,892
Interest of outside shareholders	**1,823**	576	—
Net income	**19,938**	9,674	4,892
Other Businesses			
Gross operating revenue	**334,538**	302,366	262,148
Expenses including income taxes	**317,672**	290,564	258,102
Net income	**16,866**	11,802	4,046
Financial			
Gross operating revenue	**168,200**	142,261	95,817
Expenses including income taxes	**149,320**	109,066	85,684
Net income	**18,880**	33,195	10,133
Canadian Pacific Enterprises Limited			
Net income	**404,600**	491,257	420,329
Minority interest	**117,593**	128,310	85,834
Net Income	**$ 287,007**	$ 362,947	$ 334,495

3. Expenses including Income Taxes	**1981**	1980	1979
		in thousands	
CP Rail			
Maintenance	**$ 581,381**	$ 493,350	$ 460,233
Traffic	**37,798**	33,766	29,371
Other operating	**799,852**	666,837	603,565
General and administrative	**275,302**	231,385	216,657
Depreciation	**98,280**	87,266	82,626
Fixed charges	**27,800**	20,700	21,600
Income taxes	**123,396**	118,694	96,242
	$ 1,943,809	$ 1,651,998	$ 1,510,294
CP Air			
Maintenance	**$ 75,824**	$ 69,473	$ 57,334
Other operating	**507,681**	405,823	301,388
Selling, general and administrative	**180,125**	148,037	122,713
Depreciation and amortization	**53,503**	38,899	28,926
Interest	**39,689**	24,886	17,372
Income taxes	**(11,755)**	4,294	11,350
	$ 845,067	$ 691,412	$ 539,083
CP Ships			
Maintenance	**$ 26,934**	$ 28,824	$ 15,137
Other operating	**178,791**	181,965	144,288
Selling, general and administrative	**38,284**	34,634	30,531
Depreciation and amortization	**31,197**	26,417	22,521
Interest	**17,800**	13,136	13,202
Income taxes	**(585)**	1,439	3,646
	$ 292,421	$ 286,415	$ 229,325
CP Trucks			
Maintenance	**$ 25,856**	$ 21,930	$ 19,618
Other operating	**203,952**	158,620	140,233
Selling, general and administrative	**37,986**	52,449	44,938
Depreciation and amortization	**10,046**	9,167	7,844
Interest	**2,297**	3,508	2,774
Income taxes	**5,943**	(907)	(1,821)
	$ 286,080	$ 244,767	$ 213,586
Soo Line Railroad Company			
Maintenance	**$ 114,924**	$ 107,074	$ 91,594
Traffic	**7,952**	7,069	6,253
Other operating	**184,744**	168,956	167,773
General and administrative	**18,755**	14,159	14,715
Depreciation and amortization	**10,606**	9,915	8,223
Fixed charges	**14,295**	13,573	10,681
Income taxes	**21,745**	17,885	18,495
	$ 373,021	$ 338,631	$ 317,734

CP Telecommunications			
Maintenance	**$ 64,162**	$ 58,418	$ 42,335
Other operating	**8,862**	8,271	5,915
Selling, general and administrative	**29,493**	24,800	22,276
Depreciation and amortization	**17,128**	13,362	11,064
Interest	**7,012**	7,988	4,710
Income taxes	**5,305**	5,262	5,910
	$ 131,962	$ 118,101	$ 92,210
Miscellaneous			
Operating, general and administrative	**$ 19,857**	$ 15,208	$ 6,927
Depreciation	**963**	2,543	1,164
Fixed charges	**70,125**	62,289	62,958
Income taxes	**(3,449)**	(6,335)	(32)
	$ 87,496	$ 73,705	$ 71,017
Canadian Pacific Enterprises Limited			
Operating expenses and cost of goods sold	**$ 5,763,680**	$ 4,320,866	$ 3,319,920
Distribution, selling, general and administrative	**956,166**	634,294	479,856
Depreciation, depletion and amortization	**338,049**	290,736	258,880
Interest	**414,901**	254,988	214,670
Income taxes	**461,487**	417,841	351,693
	$ 7,934,283	$ 5,918,725	$ 4,625,019

4. Canadian Pacific Enterprises Limited – Expenses including Income Taxes

	1981	1980	1979
		in thousands	
Oil and Gas			
Cost of goods sold	**$ 134,702**	$ 107,030	$ 86,098
Selling, general and administrative	**20,817**	15,967	13,353
Depreciation, depletion and amortization	**72,428**	65,380	54,030
Interest	**32,174**	25,373	30,239
Income taxes	**178,064**	119,570	74,355
	438,185	333,320	258,075
Mines and Minerals			
Cost of goods sold	**1,095,129**	990,074	798,833
Distribution, selling, general and administrative	**319,417**	257,028	220,461
Depreciation, depletion and amortization	**98,415**	84,966	83,640
Interest	**72,127**	36,334	30,584
Income taxes	**52,961**	133,886	142,389
	1,638,049	1,502,288	1,275,907
Forest Products			
Cost of goods sold	**789,206**	461,155	299,352
Selling, general and administrative	**30,245**	14,250	10,936
Depreciation, depletion and amortization	**50,941**	40,788	29,606
Interest	**68,295**	14,221	13,345
Income taxes	**37,201**	62,897	46,647
	975,888	593,311	399,886
Iron and Steel			
Cost of goods sold	**2,464,783**	1,839,811	1,693,010
Selling, general and administrative	**314,256**	198,634	162,009
Depreciation, depletion and amortization	**77,543**	68,916	67,114
Interest	**108,663**	60,132	48,546
Income taxes	**146,325**	69,780	73,000
	3,111,570	2,237,273	2,043,679
Real Estate			
Operating expenses and cost of sales	**113,227**	100,806	56,423
Depreciation	**10,309**	8,788	6,610
Interest	**55,901**	48,464	34,749
Income taxes	**23,251**	14,751	13,297
	202,688	172,809	111,079
Agriproducts			
Cost of goods sold	**934,587**	604,548	230,909
Selling, general and administrative	**161,651**	74,601	8,857
Depreciation and amortization	**14,860**	9,066	3,600
Interest	**21,367**	9,625	2,275
Income taxes	**11,007**	7,497	4,323
	1,143,472	705,337	249,964

Other Businesses			
Operating expenses and cost of goods sold	**232,046**	217,442	190,503
Selling, general and administrative	**47,882**	40,962	37,439
Depreciation and amortization	**13,292**	12,425	14,158
Interest	**10,797**	11,458	10,635
Income taxes	**13,655**	8,277	5,367
	317,672	290,564	258,102
Financial			
General and administrative	**61,898**	32,852	26,801
Depreciation and amortization	**261**	407	122
Interest	**88,138**	74,624	66,446
Income taxes	**(977)**	1,183	(7,685)
	149,320	109,066	85,684
	7,976,844	5,943,968	4,682,376
Inter-segment eliminations	**(42,561)**	(25,243)	(57,357)
	$ 7,934,283	$ 5,918,725	$ 4,625,019

5. Interest Expense	**1981**	1980	1979
		in thousands	
Long term debt and debenture stock	**$ 398,367**	$ 270,690	$ 244,149
Short term debt	**145,009**	88,774	60,968
	$ 543,376	$ 359,464	$ 305,117
Interest capitalized on funds borrowed to finance capital projects	**$ 58,233**	$ 22,975	$ 12,596

6. Income Taxes

	1981	1980	1979
	in thousands		
Current	**$ 257,831**	$ 307,359	$ 282,770
Deferred	**344,256**	250,814	202,713
	$ 602,087	$ 558,173	$ 485,483

	1981	1980	1979
The deferred income tax provision arose as follows:			
Capital cost allowances	**$ 264,499**	$ 184,213	$ 151,768
Exploration and development allowances	**55,135**	57,793	45,584
Miscellaneous	**24,622**	8,808	5,361
	$ 344,256	$ 250,814	$ 202,713

	1981	1980	1979
Income tax at the statutory tax rate may be reconciled to the effective tax as follows:			
Income tax at the statutory rate	**$ 704,938**	$ 746,734	$ 638,257
Depletion and resource allowances	**(84,923)**	(115,297)	(114,132)
Provincial mining and resource taxes	**11,948**	26,483	29,652
Royalties and mineral reserve tax	**20,155**	22,894	16,942
Petroleum and gas revenue tax	**36,136**	—	—
Investment tax credits	**(20,117)**	(24,968)	(38,541)
Miscellaneous	**(66,050)**	(97,673)	(46,695)
Income tax as charged to income	**$ 602,087**	$ 558,173	$ 485,483

7. Other Inventories

	1981	1980
	in thousands	
Raw materials	**$ 724,682**	$ 482,848
Work in process	**297,099**	270,161
Finished goods	**490,743**	360,296
Stores and materials	**287,694**	198,053
	$ 1,800,218	$ 1,311,358

8. Investment Portfolio

		1981		1980	
		in thousands			
	Percentage of outstanding voting shares	*Cost*	*Approximate market value*	*Cost*	*Approximate market value*
Common shares					
MICC Investments Limited	3.92	**$ 2,293**	$ 4,049	$ 2,293	$ 5,162
Norcen Energy Resources Limited	1.03	**3,804**	7,268	3,804	8,423
Rio Algom Limited	9.37	**30,823**	54,610	30,823	46,619
Union Carbide Canada Limited	8.24	**18,375**	28,060	18,375	34,044
Other		**2,356**	2,803	4,220	6,444
		57,651	96,790	59,515	100,692
Preferred shares		**7,488**	5,226	7,488	5,658
Bonds, debentures and notes		**2,198**	1,897	2,198	1,932
		$ 67,337	$ 103,913	$ 69,201	$ 108,282

9. Other Investments

	1981	1980
	in thousands	
Accounted for on the equity basis:		
Koehring Financial Corporation	**$ 54,840**	$ 39,710
Aberfoyle Limited	**32,330**	20,412
Tahsis Company Ltd.	**58,454**	—
Tilden Iron Ore Partnership	**43,506**	41,304
Other	**77,516**	73,109
Accounted for on the cost basis:		
Panarctic Oils Ltd.	**42,303**	40,637
Tara Exploration and Development Company Limited	**26,903**	26,903
The Toronto Terminals Railway Company	**10,682**	10,882
Other	**121,378**	57,384
	$ 467,912	$ 310,341

10. Properties and Accumulated Depreciation, Depletion and Amortization

	1981			1980
	in thousands			
	Cost	*Accumulated Depreciation, Depletion and Amortization*	*Net*	*Net*
CP Rail*	$ 3,515,271	$ 1,518,132	**$ 1,997,139**	$ 1,789,652
CP Air	960,377	288,732	**671,645**	483,168
CP Ships	689,285	152,138	**537,147**	472,523
CP Trucks	145,623	56,593	**89,030**	80,104
Soo Line Railroad Company	485,883	131,685	**354,198**	329,852
CP Telecommunications	271,140	122,233	**148,907**	128,172
Miscellaneous	27,686	4,055	**23,631**	25,768
Canadian Pacific Enterprises Limited				
Oil and Gas	1,768,498	424,423	**1,344,075**	1,110,863
Mines and Minerals	2,093,333	655,295	**1,438,038**	1,080,550
Forest Products	1,883,922	322,619	**1,561,303**	441,330
Iron and Steel	1,727,815	645,988	**1,081,827**	823,765
Real Estate	1,067,191	48,138	**1,019,053**	892,998
Agriproducts	243,021	91,839	**151,182**	136,711
Other Businesses	288,634	72,061	**216,573**	206,697
Financial	1,516	719	**797**	733
Total Enterprises	9,073,930	2,261,082	**6,812,848**	4,693,647
	$ 15,169,195	$ 4,534,650	**$ 10,634,545**	$ 8,002,886

*Includes $39,876,000 (1980 – $40,661,000) securities of leased railway companies.

11. Long Term Debt	**1981**	1980
	in thousands	
Canadian Pacific Limited		
5% Collateral Trust Bonds due 1983	**$ 31,536**	$ 31,536
8⅛% Collateral Trust Bonds due 1985	**27,750**	27,750
8½% Collateral Trust Bonds due 1989	**5,188**	5,188
9¾% Collateral Trust Bonds due 1989	**52,999**	52,999
8⅞% Collateral Trust Bonds due 1992	**41,000**	42,180
10.35% Collateral Trust Bonds due 1994	**61,082**	64,799
11¼% Collateral Trust Bonds due 1995	**55,974**	57,425
6⅜% – 14⅜% Equipment Trust Certificates due 1982-1993	**174,026**	91,057
Bank loans and sundry borrowings due 1982-1991	**279,010**	221,327
Canadian Pacific Air Lines, Limited		
Bank loans due 1982-1991	**162,728**	86,211
Canadian Pacific (Bermuda) Limited		
Mortgages due 1982-1987	**87,176**	95,659
8¼% Notes due 1984	**28,090**	30,952
Bank loan due 1985	**14,091**	18,715
Canadian Pacific Steamships, Limited		
Bank loan due 1983-1986	**3,440**	666
Obligation under capital lease due 1982-1988	**29,253**	—
Soo Line Railroad Company		
6⅛% – 13⅝% Equipment Trust Certificates due 1983-1996	**108,816**	101,227
Sundry – due 1982-2029	**27,454**	32,163
The Algoma Steel Corporation, Limited		
7⅜% – 11% Sinking Fund Debentures due 1987-1995	**148,699**	151,854
Floating Rate Income Debentures due 1994-1999	**106,880**	106,880
9.65% Notes due 2000	**35,000**	35,000
AMCA International Limited		
Bank loans due 1984-1996	**195,909**	45,877
9% – 10¼% Debentures due 1984-1986	**63,124**	64,650
Other notes payable 1982-1997	**107,272**	92,027
Canadian Pacific Hotels Limited		
8⅝% – 11⅜% First Mortgage Sinking Fund Bonds due 1992-1995	**44,568**	45,100
Sundry – due 1982-1993	**6,706**	5,400
Canadian Pacific Securities Limited		
Bank loan due 1983-1985	**3,210**	3,210
8¼% – 10½% Debentures due 1984-1993	**94,586**	96,050
9¼% – 17¾% Notes due 1983-1987	**75,000**	70,000
CanPac AgriProducts Limited		
Sundry – due 1982-1990	**21,885**	25,165
CIP Inc.		
Bank loans due 1985-1994	**340,308**	—
Balance of purchase price due 1982 (Note 24)	**510,000**	—
Sundry – due 1982-1987	**2,948**	—
Cominco Ltd.		
Bank loans due 1982-1994	**370,604**	136,150
8½% – 10⅞% Sinking Fund Debentures due 1991-1995	**101,698**	106,577
Notes due 1982-1996	**49,895**	49,224
Subsidiaries of Cominco Ltd.	**55,989**	44,508
Great Lakes Forest Products Limited		
8% – 11¼% Sinking Fund Bonds due 1989-1995	**43,085**	44,706
8¾% Debentures due 1984	**17,506**	19,248
Sundry – due 1982-1987	**14,932**	5,988

Maple Leaf Mills Limited		
Bank loan due 1990	**10,000**	24,000
8½% – 11⅝% Sinking Fund Debentures due 1988-1998	**48,169**	54,335
Sundry – due 1982-1988	**9,957**	3,361
Marathon Realty Company Limited		
Bank loans due 1982-2001	**136,941**	163,057
6½% – 14¾% Sinking Fund Bonds due 1989-2002	**119,835**	76,324
Mortgages due 1982-2016	**328,630**	245,110
Sundry – due 1983-1991	**89,200**	90,122
PanCanadian Petroleum Limited		
Bank loans due 1982-1985	**121,925**	123,140
8⅛% – 16½% Debentures due 1983-1992	**144,250**	80,500
Other companies	**39,313**	30,020
	4,647,637	2,997,437
Less: Long term debt maturing within one year	**285,823**	312,741
	$ 4,361,814	$ 2,684,696

Collateral Trust Bonds of Canadian Pacific Limited are secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount $557,637,000 at December 31, 1981 (1980 – $573,242,000).

Of the aggregate bank loans of $1,642,689,000 included above, approximately $1,238,500,000 bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

At December 31, 1981, foreign currency long term debt, denominated principally in United States dollars, translated at current rates would be $1,875,077,000, which is $69,183,000 more than the amount at which it is carried above.

Annual maturities and sinking fund requirements for each of the five years following 1981 are:
1982 – $285,823,000; 1983 – $445,551,000;
1984 – $370,029,000; 1985 – $345,328,000;
1986 – $340,589,000.

12. Perpetual 4% Consolidated Debenture Stock

	1981				1980
	in thousands				
Currency of Issue	*Sterling*	*United States Dollar*	*Canadian Dollar*	*Total*	*Total*
Issued	£ 46,757	$ 352,483	$ 270,154	**$ 850,186**	$ 865,791
Less: Pledged as collateral	—	287,483	270,154	**557,637**	573,242
	£ 46,757	$ 65,000	$ —	**$ 292,549**	$ 292,549

Sterling translated at Canadian $4.86⅔ to the £1; U.S. dollars on the basis of one Canadian dollar equals one U.S. dollar. At December 31, 1981 translated at current rates, the net amount outstanding would be $180,967,000.

13. Minority Shareholders' Interest in Subsidiary Companies

	1981	1980
	in thousands	
Canadian Pacific Air Lines, Limited		
Floating rate preference shares, series A	**$ 50,000**	$ 50,000
Soo Line Railroad Company	**110,738**	101,848
Canadian Pacific Enterprises Limited		
Common share equity	**807,769**	722,259
PanCanadian Petroleum Limited	**102,689**	90,888
Cominco Ltd.		
$2.00 Tax deferred exchangeable preferred shares, series A	**46,502**	48,473
Floating rate preferred shares, series C	**50,000**	50,000
Common share equity	**391,091**	396,938
Steep Rock Iron Mines Limited	**13,759**	13,076
CIP Inc.	**33,637**	—
Great Lakes Forest Products Limited	**149,903**	121,151
The Algoma Steel Corporation, Limited		
8% Tax deferred preference shares, series A	**53,530**	56,530
Floating rate preference shares	**80,000**	80,000
Common share equity	**371,992**	320,348
AMCA International Limited	**204,423**	189,377
Other	**11,309**	11,011
	$ 2,477,342	$ 2,251,899

14. Preferred Shares

The series A preferred shares are redeemable at the Company's option at $10.25 per share on or before January 1, 1984 and at $10.00 thereafter. In addition, shares may be purchased for cancellation at any time subject to certain price restrictions.

The Company is obligated to apply up to $2,000,000 in each year to the purchase of series A preferred shares, if available, at a price not exceeding $10.25 per share plus costs of purchase. The price decreases to $10.00 after January 1, 1984.

	1981		1980		1979	
	Number	*Amount*	*Number*	*Amount*	*Number*	*Amount*
			in thousands			
Balance, January 1	**1,979**	**$ 19,790**	2,197	$ 21,974	2,515	$ 25,153
Purchased	**319**	**3,194**	218	2,184	318	3,179
Balance, December 31	**1,660**	**$ 16,596**	1,979	$ 19,790	2,197	$ 21,974
Total cost of shares purchased		**$ 2,597**		$ 1,967		$ 3,243

15. Preference Stock

During 1981, Canadian Pacific Enterprises (Finance) N.V. (a wholly-owned indirect subsidiary of Canadian Pacific Enterprises Limited) acquired preference stock in the Company with a par value of $518,000 at a total cost of $241,000.

16. Other Paid-in Surplus	**1981**	1980	1979
		in thousands	
Balance, January 1	**$ 170,056**	$ 150,239	$ 139,690
Net additions during year	**59,793**	19,817	10,549
Balance, December 31	**$ 229,849**	$ 170,056	$ 150,239

17. Industry Segments	**1981**	1980	1979
		in thousands	
Identifiable assets			
CP Rail	**$ 2,526,640**	$ 2,303,363	$ 2,065,604
CP Air	**844,749**	643,891	508,013
CP Ships	**718,047**	615,194	541,161
CP Trucks	**140,345**	122,783	113,242
Soo Line Railroad Company	**546,222**	497,712	449,431
CP Telecommunications	**219,546**	155,006	117,942
Miscellaneous	**338,621**	411,748	442,382
Canadian Pacific Enterprises Limited			
Oil and Gas	**1,528,173**	1,284,770	1,080,244
Mines and Minerals	**2,196,655**	1,737,745	1,529,125
Forest Products	**2,299,658**	722,931	555,818
Iron and Steel	**2,913,085**	2,249,706	1,861,814
Real Estate	**1,083,030**	948,925	826,286
Agriproducts	**361,453**	384,497	87,967
Other Businesses	**277,533**	266,309	252,643
Financial	**838,857**	1,139,683	1,012,849
Eliminations	**(502,429)**	(445,762)	(442,128)
	$ 16,330,185	$ 13,038,501	$ 11,002,393
Capital expenditures			
CP Rail	**$ 317,135**	$ 242,676	$ 204,699
CP Air	**242,211**	151,790	193,222
CP Ships	**107,797**	82,982	28,777
CP Trucks	**21,089**	14,745	8,747
Soo Line Railroad Company	**36,471**	55,113	32,105
CP Telecommunications	**38,059**	41,742	19,387
Miscellaneous	**4,751**	6,913	5,421
Canadian Pacific Enterprises Limited			
Oil and Gas	**308,728**	269,806	213,827
Mines and Minerals	**471,107**	341,625	170,843
Forest Products	**227,770**	63,684	115,915
Iron and Steel	**327,419**	140,961	104,474
Real Estate	**174,728**	137,072	98,652
Agriproducts	**20,964**	12,622	4,810
Other Businesses	**24,203**	23,145	18,686
Financial	**295**	157	301
	$ 2,322,727	$ 1,585,033	$ 1,219,866

18. Geographic Segments	**1981**	1980	1979
		in thousands	
Canada			
Revenues			
Domestic	**$ 6,192,965**	$ 5,270,947	$ 4,360,549
Export – U.S.	**1,598,011**	1,129,909	949,697
– Other	**729,650**	517,779	335,935
International transportation revenues	**906,415**	812,130	660,974
Inter-area transfers	**415,207**	234,696	156,594
	9,842,248	7,965,461	6,463,749
Inter-company revenues	**(447,074)**	(347,532)	(341,744)
Total revenues	**9,395,174**	7,617,929	6,122,005
Net income before income taxes and minority interest	**1,136,247**	1,245,821	1,121,615
Net income	**$ 370,703**	$ 457,480	$ 427,418
Identifiable assets	**$ 13,303,278**	$ 10,410,018	$ 8,930,910
United States			
Revenues	**$ 2,610,433**	$ 1,974,393	$ 1,694,700
Inter-area transfers	**222,768**	231,435	194,738
Total revenues	**2,833,201**	2,205,828	1,889,438
Net income before income taxes and minority interest	**194,818**	192,456	144,631
Net income	**$ 55,010**	$ 62,646	$ 41,723
Identifiable assets	**$ 2,326,630**	$ 1,960,211	$ 1,550,786
Other Countries			
Revenues	**$ 409,663**	$ 288,145	$ 262,023
Inter-area transfers	**45,348**	13,548	19,750
Total revenues	**455,011**	301,693	281,773
Net income before income taxes and minority interest	**74,465**	49,178	49,955
Net income	**$ 16,084**	$ 10,671	$ 12,681
Identifiable assets	**$ 484,659**	$ 498,840	$ 421,664
International – Seagoing			
Revenues	**$ 336,203**	$ 338,775	$ 255,645
Net income before income taxes	**43,197**	53,799	29,966
Net income	**$ 43,782**	$ 52,360	$ 26,320
Identifiable assets	**$ 718,047**	$ 615,194	$ 541,161
Summary			
Revenues	**$ 13,019,589**	$ 10,464,225	$ 8,548,861
Inter-area transfers	**(683,323)**	(479,679)	(371,082)
Total revenues	**12,336,266**	9,984,546	8,177,779
Net income	**$ 485,579**	$ 583,157	$ 508,142
Identifiable assets	**$ 16,832,614**	$ 13,484,263	$ 11,444,521
Eliminations	**(502,429)**	(445,762)	(442,128)
	$ 16,330,185	$ 13,038,501	$ 11,002,393

19. Pensions

At December 31, 1981, there were unfunded liabilities, determined by actuarial evaluations, of $774,000,000, which is being funded by series of equal annual payments ending from 1982 to 2004, and $224,000,000, which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was $225,000,000 in 1981 (1980 – $187,000,000; 1979 – $180,000,000).

20. Commitments

At December 31, 1981, commitments for capital expenditures amounted to $1,821,000,000 and minimum payments under operating leases were estimated at $807,000,000 in the aggregate, with annual payments in each of the five years following 1981 of:

1982 – $91,000,000; 1983 – $81,000,000;
1984 – $69,000,000; 1985 – $61,000,000;
1986 – $49,000,000.

At December 31, 1981, unused commitments for long term financing amounted to $1,993,000,000 at interest rates varying from 8% to 14% on $415,000,000 and from prime to prime plus 1¼% on $1,578,000,000 with commitment fees on $1,357,000,000 ranging from ¼% to ¾%.

Unused lines of credit for short term financing, subject to customary right of review at any time, repayable on demand and at various maturities up to 365 days, with interest averaging 17.0% amounted to $839,000,000 including $580,000,000 on which interest varies with prime.

21. Contingencies

The Company is a defendant in two actions brought by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Company operates under a perpetual lease, alleging misuse of assets, breaches and termination of the perpetual lease, and claiming entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands and, in the alternative, substantial damages. The trial of these actions was concluded in December 1977 and the plaintiffs' actions succeeded in part. The Company appealed and the plaintiffs cross-appealed. On December 31, 1981, the Ontario Court of Appeal pronounced judgment allowing the Company's appeals, dismissing the plaintiffs' cross-appeals and substantially reversing the partial success that the plaintiffs had achieved at trial. The resulting judgments, which cannot be appealed except with leave, will not have any adverse affect on the financial condition of the Company. The plaintiffs have applied for leave to appeal to the Supreme Court of Canada but these applications have not yet been heard.

On September 4, 1981, a representative of the holders of the consolidated debenture stock of the Ontario and Quebec Railway Company, who had been granted status by the Court as an intervenant in the above-mentioned appeal proceedings, commenced an action in the Supreme Court of Ontario on their behalf and on behalf of the minority shareholders of the Ontario and Quebec Railway Company against the Company, the Mercantile-Safe Deposit & Trust Company, and the Ontario and Quebec Railway Company seeking declarations respecting the ownership of rolling stock of the Company, a series of accounting proceedings relating to the rolling stock, a declaration that the Company's perpetual lease of the Ontario and Quebec Railway is void and damages. Counsel for the Company are of the opinion that this action can be successfully defended.

22. Acquisitions

On October 1, 1981, a subsidiary of Enterprises acquired all the common stock of CIP Inc., formerly Canadian International Paper Company, which is engaged in Canada in the forest products industry. Maple Leaf Mills Limited acquired in April 1981 Gordon Young Limited, a rendering business, and its subsidiary, Laurentian Food Products Limited, a manufacturer of edible fats, oils and shortenings. These acquisitions were accounted for as purchases and consolidated from the dates of acquisition.

A summary of the assets acquired and the consideration given is as follows:

	CIP Inc.	*Gordon Young*
	in thousands	
Net assets acquired at values assigned thereto:		
Assets	$ 1,488,727	$ 15,013
Liabilities	385,957	5,118
	$ 1,102,770	$ 9,895
Consideration given:		
Cash	$ 102,770	$ 4,895
Balance of purchase price, payable January 4, 1982	660,000	—
Bank loans due 1985-1994	340,000	—
Notes due 1982-1986	—	5,000
	$ 1,102,770	$ 9,895

Assuming the purchase of CIP had taken place on January 1, 1980 and $850,000,000 of the purchase price had been financed as of that date by bank borrowings at prime rate, the theoretical pro-forma consolidated results of CP Limited would have been as follows:

	1981	1980
	in thousands	
Revenues	**$ 13,299,000**	$ 11,175,000
Net income	**441,810**	595,991
Earnings per Ordinary share	**$ 6.14**	$ 8.29

In July 1980, a subsidiary of Enterprises acquired Maple Leaf Mills Limited for $121,569,000. In the same month, Pacific Forest Products acquired Victoria Plywood Ltd. The acquisition was accomplished by an exchange of common shares of Enterprises, the equivalent of $18 million. In September 1980, AMCA acquired Koehring Company for $161,270,000. In October 1980, Cominco purchased a block of shares of Bethlehem Copper Corporation for $61,013,000, which raised its 39.2% equity interest, book value $41,313,000, to 64.4%. During 1981, Cominco purchased additional shares of Bethlehem Copper for $90,146,000 to bring its holding to 100%. During 1979 Canadian Freehold Properties Ltd. was acquired for $66,173,000, the operations of Processed Minerals Incorporated for $30,601,000 and Corenco Corporation for $15,583,000. Except for Victoria Plywood, the purchase consideration in each case was cash, which approximated the values assigned to the net assets acquired. All these acquisitions were accounted for as purchases and consolidated from the dates of acquisition, and they had no material effect upon the consolidated financial position or consolidated net income of the Company.

23. Supplementary Data

The discussion of Canadian and United States Accounting Principles and the tables relating to Oil and Gas Production, Exploration and Development included in Supplementary Data are an integral part of these financial statements.

24. Subsequent Events

The payment by Enterprises of $660,000,000 made on January 4, 1982 in respect of the acquisition of CIP Inc. was financed by a contribution from Enterprises of $150,000,000 out of working capital and the balance of $510,000,000 by term bank borrowings.

As a result of the termination, effective January 31, 1982, of the Transportation Fuel Compensation Recovery Charge, efforts are being made by CP Air to obtain the retroactive exemption from this charge granted to foreign carriers. If successful, these efforts will result in an improvement of $10,500,000 plus accrued interest in consolidated pre-tax income in 1982.

Supplementary Data

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Company's United States shareholders, the major differences are described below and their effect on the Company's net income is summarized, their effect on the balance sheet not being significant.

The full cost method of accounting for Oil and Gas as promulgated by the SEC differs from the method followed by the Company in a number of respects. The primary differences are that Canadian GAAP permits capitalization of overhead which the SEC requires to be expensed and that Canadian GAAP permits the use of a world-wide full cost pool whereas the SEC requires that the full cost pool be established on a country-by-country basis.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate segment in accordance with Canadian GAAP are not acceptable methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

CP Limited follows the Canadian practice of translating foreign currency denominated long term debt (excluding the current portion) at historic exchange rates, whereas United States GAAP (Financial Accounting Standards Board Statement No. 8) requires such debt to be translated at current rates.

	1981	1980	1979
		in thousands	
Net income – Canadian GAAP	**$ 485,579**	$ 583,157	$ 508,142
Increased or (decreased) by:			
Oil and Gas	**(7,236)**	(3,620)	(7,162)
Real Estate	**(3,902)**	(1,847)	(2,149)
Foreign Exchange	**12,846**	(1,132)	23,312
	1,708	(6,599)	14,001
Net income – United States GAAP	**$ 487,287**	$ 576,558	$ 522,143
Earnings per Ordinary share:			
Canadian GAAP	**$ 6.75**	$ 8.11	$ 7.06
United States GAAP	**6.78**	8.02	7.26

Oil and Gas Production, Exploration and Development

Revenues (net after royalties and lifting costs)	**1981**	1980	1979
	in thousands		
Oil	**$ 185,251**	$ 158,031	$ 135,784
Natural gas	**214,433**	212,105	150,596
Natural gas liquids	**16,092**	13,605	10,495
Sulphur	**10,482**	6,946	2,309
	$ 426,258	$ 390,687	$ 299,184

Approximately 4% (1980 – 3% and 1979 – 1%) of Oil and Gas revenues were produced in the United States.

Capitalized Costs

Country	*Petroleum and Natural Gas Properties*	*Accumulated Depletion*	*Plant Production and Other Equipment*	*Accumulated Depreciation*	*Net Total*
			in thousands		
1981					
Canada	$ 966,073	$ (242,679)	$ 560,421	$ (126,687)	$ 1,157,128
United States	191,608	(38,463)	8,364	(2,493)	159,016
Other	41,707	(13,928)	325	(173)	27,931
	$ 1,199,388	$ (295,070)	$ 569,110	$ (129,353)	$ 1,344,075
1980					
Canada	$ 865,468	$ (207,535)	$ 391,927	$ (101,158)	$ 948,702
United States	160,769	(30,972)	5,619	(1,147)	134,269
Other	40,335	(12,570)	287	(160)	27,892
	$ 1,066,572	$ (251,077)	$ 397,833	$ (102,465)	$ 1,110,863

Consolidated depletion was allocated yearly on a prorated basis applying the ratio of current year area of interest expenditures to total expenditures during the year.

Oil and Gas Production, Exploration and Development – continued

Costs Incurred in Producing Activities

Country	Property Acquisition	Exploration	Development	Lifting Costs	Depreciation, Depletion and Amortization
			in thousands		
1981					
Canada	$ 10,921	$ 44,715	$ 77,520	$ 56,256	$ 54,133
United States	6,345	17,093	6,021	2,170	27,958
Other	39	1,293	—	—	(17,676)
	$ 17,305	$ 63,101	$ 83,541	$ 58,426	$ 64,415
1980					
Canada	$ 23,085	$ 106,339	$ 74,670	$ 47,942	$ 48,974
United States	11,961	10,167	3,428	1,526	15,722
Other	3,507	2,639	—	—	(6,901)
	$ 38,553	$ 119,145	$ 78,098	$ 49,468	$ 57,795
1979					
Canada	$ 33,561	$ 66,925	$ 40,467	$ 39,491	$ 40,564
United States	16,223	14,648	1,977	1,192	9,749
Other	4	3,288	—	—	(619)
	$ 49,788	$ 84,861	$ 42,444	$ 40,683	$ 49,694

Reserve Recognition Accounting Data (Unaudited)

The following information was prepared in accordance with Securities and Exchange Commission regulations providing for presentation of a summary statement of oil and gas producing activities on the basis of reserve recognition accounting and has been included in accordance with the requirements of that Commission. Reserve recognition accounting statements are not prepared in accordance with generally accepted accounting principles in Canada or the United States and thus are not prepared on the same basis as the financial statements or notes to consolidated financial statements. Inclusion of reserve recognition accounting information is not intended to express an opinion that oil and gas prices or production and development costs will remain constant or will change at the same rates or that existing economic conditions will continue, all of which are assumed in preparing such statements. Their inclusion should not be interpreted to indicate the belief that valid inferences as to probable future net revenues or pre-tax earnings can be derived therefrom.

Under the reserve recognition accounting method, proved reserves of oil and gas are recorded as "assets" upon discovery. The valuation of these assets is based on the present value of future net revenues to be derived from producing the reserves. Current year additions to proved reserves and revisions to the valuation of the reserves are reflected in the reserve recognition accounting "income statement" along with all costs associated with finding, developing and producing new reserves.

For the purposes of reserve recognition accounting valuation, PanCanadian has used proved reserve estimates as determined by McDaniel Consultants (1965) Ltd. for Canada and Ryder Scott Company for the United States.

PanCanadian Petroleum's estimated future net revenues from proved oil and gas reserves for 1982 through 1984 and all remaining years based on estimated reserves at December 31, 1981 are set forth below:

	1982	1983	1984	All Remaining Years	Total
			in thousands		
Estimated future net revenues from proved reserves (not discounted)	$ 456,873	$ 576,591	$ 649,729	$ 10,879,280	$ 12,562,473

The prices utilized in estimating future net revenues from Canadian production were escalated in accordance with the provisions of the federal and provincial energy pricing and taxation agreements. These agreements provide that the Canadian price of old oil will not exceed 75% of the world price. No increase in world oil prices beyond those established at December 31, 1981 has been anticipated in this projection.

The present value of estimated future net revenues from proved reserves discounted at 10% was $5,205,674,000 (1980 – $2,627,506,000; 1979 – $1,936,500,000).

The following table is a summary of oil and gas producing activities in 1981, 1980 and 1979 on the basis of reserve recognition accounting.

	1981	1980	1979
		in thousands	
Present value of gross additions to proved reserves	**$ 162,783**	$ 63,158	$ 98,725
Revisions to estimates of reserves proved in prior periods:			
Changes in price	**2,783,564**	721,161	533,598
Changes in operating expense forecasts for proved reserves	**(138,066)**	41,885	(249,264)
Changes in production timing and engineering review of proved reserve quantities	**(134,793)**	(7,718)	157,571
Accretion of discount	**262,751**	193,650	151,797
	2,936,239	1,012,136	692,427
Acquisition, exploration, development and production costs:			
Costs incurred, including impairments	**80,406**	157,698	134,649
Present value of estimated future development and production costs	**15,354**	8,541	17,147
	95,760	166,239	151,796
Additions and revisions to proved reserves over related costs*	**2,840,479**	845,897	540,631
Provision for income and revenue taxes:			
Income taxes (at historical effective rate)	**1,008,863**	284,136	172,948
Petroleum and gas revenue tax	**784,659**	—	—
Incremental oil revenue tax	**78,766**	—	—
	1,872,288	284,136	172,948
Results of oil and gas producing activities on the basis of reserve recognition accounting	**$ 968,191**	$ 561,761	$ 367,683

*The corresponding pre-tax profit contribution reported in the historical financial statement is $362,902,000 (1980 – $333,652,000; 1979 – $249,490,000).

Reserve Recognition Accounting Data (Unaudited) – continued

The following table summarizes the changes in the present value of estimated future net revenues from proved reserves during 1981, 1980 and 1979. All amounts included in this table are prior to income and revenue taxes.

	1981	1980	1979
	in thousands		
Balance, January 1	**$ 2,627,506**	$ 1,936,500	$ 1,517,960
Additions and revisions less related estimated future development and production costs of $15,354,000 (1980 – $8,541,000; 1979 – $17,147,000)	**2,920,885**	1,003,595	675,280
Expenditures that reduced estimated future development costs	**83,541**	78,098	42,444
	3,004,426	1,081,693	717,724
Less: Sales and transfers of oil and gas, net of production costs and mineral reserve taxes of $58,426,000 (1980 – $49,468,000; 1979 – $40,683,000)	**426,258**	390,687	299,184
	2,578,168	691,006	418,540
Balance, December 31	**$ 5,205,674**	$ 2,627,506	$ 1,936,500

Oil and Gas Reserves (Unaudited)

A report dated February 8, 1982 has been prepared by McDaniel Consultants (1965) Ltd., Calgary, Alberta, independent oil and gas reserve evaluators, estimating PanCanadian's net share of remaining proved crude oil, natural gas and natural gas liquids reserves in Canada. Net reserves shown by the report are included in the table which follows. Also included is PanCanadian's net share of remaining proved crude oil, natural gas liquids and natural gas reserves in the United States, as estimated by Ryder Scott Company, Houston, Texas, independent petroleum engineers. "Net" reserves are the gross reserves underlying the properties in which PanCanadian has either a working interest or a royalty interest, less all royalties and interests owned by others.

	Oil (including natural gas liquids) thousands of barrels			*Natural Gas MMcf*		
	Canada	*United States*	*Total*	*Canada*	*United States*	*Total*
Net proved reserves:						
December 31, 1981	91,736	697	92,433	2,478,505	13,032	2,491,537
December 31, 1980	95,922	996	96,918	2,205,046	24,073	2,229,119
December 31, 1979	104,564	787	105,351	2,054,531	15,143	2,069,674

Net reserves and changes in net proved reserves of oil (including natural gas liquids) and natural gas during the years ended December 31, 1981, 1980 and 1979 were as follows:

	Oil (including natural gas liquids)	*Natural Gas*
	thousands of barrels	*MMcf*
Net reserves – December 31, 1978	112,579	1,899,575
Revisions of previous estimates	4,180	135,848
Extension, discovery and other additions	1,908	140,048
1979 Production	(13,316)	(105,797)
Net reserves – December 31, 1979	105,351	2,069,674
Revisions of previous estimates	4,222	193,478
Extension, discovery and other additions	387	68,942
1980 Production	(13,042)	(102,975)
Net reserves – December 31, 1980	96,918	2,229,119
Revisions of previous estimates	7,002	281,744
Extension, discovery and other additions	968	82,817
1981 Production	(12,455)	(102,143)
Net reserves – December 31, 1981	92,433	2,491,537

Proved reserves are considered to be those reserves which geological and engineering data demonstrate with a high degree of certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's proved natural gas and associated liquids reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids reserves are considered to be developed even though additional drilling will be required in certain cases to drain effectively the respective reservoirs in a desirable length of time.

At December 31, 1981, PanCanadian had estimated proved reserves of 43,442,000 barrels of crude oil attributable to the Syncrude Project which are not included in the above table.

Taxation of Non-Resident Security Holders

Under the terms of proposed Canadian tax legislation and the United States-Canada tax convention, taxable dividends paid after November 12, 1981 to United States resident shareholders of Canadian Pacific Limited (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by non-residents of securities issued by Canadian Pacific Limited are exempt from Canadian tax unless the securities are held in the conduct of a Canadian business. The application of Canadian withholding tax on interest paid to non-resident holders (other than tax exempt organizations) of Canadian Pacific Limited debt securities is dependent upon the date of issuance and terms thereof.

***Quarterly Financial Information (Unaudited)* 1981**
Statement of Consolidated Income

For the three months ended	*March 31*	*June 30*	*September 30*	*December 31*
		in thousands		
CP Rail				
Revenues	$ 500,441	$ 520,677	$ 502,141	$ 547,718
Expenses including income taxes	461,588	484,849	474,801	522,571
Net income	38,853	35,828	27,340	25,147
CP Air				
Revenues	166,725	204,282	271,059	185,506
Expenses including income taxes	175,524	209,557	258,230	201,756
	(8,799)	(5,275)	12,829	(16,250)
Preference dividend	1,204	1,257	1,430	1,395
Net income	(10,003)	(6,532)	11,399	(17,645)
CP Ships				
Revenues	93,912	80,577	84,382	77,332
Expenses including income taxes	73,599	76,127	67,860	74,835
Net income	20,313	4,450	16,522	2,497
CP Trucks				
Revenues	66,316	71,675	75,549	78,006
Expenses including income taxes	66,198	70,223	73,535	76,124
Net income	118	1,452	2,014	1,882
Soo Line Railroad Company				
Revenues	98,902	99,163	110,395	105,875
Expenses including income taxes	85,688	90,667	101,748	94,918
	13,214	8,496	8,647	10,957
Minority interest	5,855	3,765	3,831	4,855
Net income	7,359	4,731	4,816	6,102
CP Telecommunications				
Revenues	32,228	33,971	35,398	35,301
Expenses including income taxes	31,112	32,732	34,753	33,365
Net income	1,116	1,239	645	1,936
Miscellaneous				
Net income	3,668	418	1,500	11,407
Transportation and Miscellaneous				
Net income	61,424	41,586	64,236	31,326
Canadian Pacific Enterprises Limited				
Revenues	1,917,160	2,160,008	1,994,302	2,487,289
Expenses including income taxes	1,763,451	1,987,364	1,838,658	2,344,810
	153,709	172,644	155,644	142,479
Minority interest	81,713	94,635	81,694	79,427
Net income	71,996	78,009	73,950	63,052
Net Income	$ 133,420	$ 119,595	$ 138,186	$ 94,378
Earnings per Ordinary Share	$ 1.86	$ 1.66	$ 1.92	$ 1.31

Quarterly Financial Information (Unaudited) 1980

Statement of Consolidated Income

For the three months ended	*March 31*	*June 30*	*September 30*	*December 31*
		in thousands		
CP Rail				
Revenues	$ 422,487	$ 443,121	$ 442,232	$ 465,753
Expenses including income taxes	398,391	417,182	406,052	430,373
Net income	24,096	25,939	36,180	35,380
CP Air				
Revenues	137,903	164,950	233,856	161,542
Expenses including income taxes	145,542	163,135	213,191	169,544
	(7,639)	1,815	20,665	(8,002)
Preference dividend	1,041	1,104	924	917
Net income	(8,680)	711	19,741	(8,919)
CP Ships				
Revenues	73,373	82,727	77,305	105,370
Expenses including income taxes	63,956	69,999	67,652	84,808
Net income	9,417	12,728	9,653	20,562
CP Trucks				
Revenues	56,899	58,622	60,092	67,627
Expenses including income taxes	58,460	59,188	59,836	67,283
Net income	(1,561)	(566)	256	344
Soo Line Railroad Company				
Revenues	96,441	87,392	94,173	102,061
Expenses including income taxes	82,846	83,834	83,483	88,468
	13,595	3,558	10,690	13,593
Minority interest	6,024	1,576	4,737	6,023
Net income	7,571	1,982	5,953	7,570
CP Telecommunications				
Revenues	30,888	30,213	30,801	31,154
Expenses including income taxes	29,846	28,912	29,523	29,820
Net income	1,042	1,301	1,278	1,334
Miscellaneous				
Net income	752	6,751	1,515	7,880
Transportation and Miscellaneous				
Net income	32,637	48,846	74,576	64,151
Canadian Pacific Enterprises Limited				
Revenues	1,451,851	1,519,140	1,623,734	2,064,525
Expenses including income taxes	1,246,029	1,352,914	1,463,612	1,856,170
	205,822	166,226	160,122	208,355
Minority interest	102,522	81,827	79,908	113,321
Net income	103,300	84,399	80,214	95,034
Net Income	$ 135,937	$ 133,245	$ 154,790	$ 159,185
Earnings per Ordinary Share	$ 1.89	$ 1.85	$ 2.15	$ 2.22

***Quarterly Financial Information (Unaudited)* 1981**

Canadian Pacific Enterprises Limited – Net Income

For the three months ended	*March 31*	*June 30*	*September 30*	*December 31*
		in thousands		
Oil and Gas				
Gross operating revenue	$ 174,137	$ 145,912	$ 159,082	$ 162,791
Expenses including income taxes	120,643	101,498	108,320	107,724
	53,494	44,414	50,762	55,067
Interest of outside shareholders	6,911	5,739	6,558	7,115
Net income	46,583	38,675	44,204	47,952
Mines and Minerals				
Gross operating revenue	406,167	490,680	402,918	425,670
Expenses including income taxes	388,554	466,173	381,921	401,401
	17,613	24,507	20,997	24,269
Interest of outside shareholders	10,262	14,754	12,050	12,658
Net income	7,351	9,753	8,947	11,611
Forest Products				
Sales and operating revenue	174,744	186,824	161,783	503,263
Expenses including income taxes	154,229	166,999	146,275	508,385
	20,515	19,825	15,508	(5,122)
Interest of outside shareholders	9,302	9,112	8,597	7,488
Net income	11,213	10,713	6,911	(12,610)
Iron and Steel				
Sales and operating revenue	744,592	824,401	827,529	915,867
Expenses including income taxes	698,143	763,325	783,438	866,664
	46,449	61,076	44,091	49,203
Interest of outside shareholders	25,445	32,657	23,558	25,573
Net income	21,004	28,419	20,533	23,630
Real Estate				
Gross rentals and other income	53,299	56,150	49,544	67,996
Expenses including income taxes	46,608	49,842	45,582	60,656
	6,691	6,308	3,962	7,340
Interest of outside shareholders	44	60	95	75
Net income	6,647	6,248	3,867	7,265
Agriproducts				
Gross operating revenue	266,367	329,605	260,164	309,097
Expenses including income taxes	262,702	323,624	255,199	301,947
	3,665	5,981	4,965	7,150
Interest of outside shareholders	425	443	512	443
Net income	3,240	5,538	4,453	6,707
Other Businesses				
Gross operating revenue	73,649	85,332	97,142	78,415
Expenses including income taxes	72,235	80,281	86,627	78,529
Net income	1,414	5,051	10,515	(114)
Financial				
Gross operating revenue	39,429	42,142	44,801	41,828
Expenses including income taxes	35,561	36,660	39,957	37,142
Net income	3,868	5,482	4,844	4,686
Canadian Pacific Enterprises Limited – Net income	101,320	109,879	104,274	89,127
Minority interest	29,324	31,870	30,324	26,075
Net Income	$ 71,996	$ 78,009	$ 73,950	$ 63,052

Quarterly Financial Information (Unaudited) 1980

Canadian Pacific Enterprises Limited – Net Income For the three months ended	March 31	June 30	September 30	December 31
		in thousands		
Oil and Gas				
Gross operating revenue	$ 143,839	$ 141,299	$ 131,148	$ 158,401
Expenses including income taxes	84,317	81,009	72,113	95,881
	59,522	60,290	59,035	62,520
Interest of outside shareholders	7,690	7,790	7,627	8,078
Net income	51,832	52,500	51,408	54,442
Mines and Minerals				
Gross operating revenue	397,889	432,823	405,635	462,133
Expenses including income taxes	332,399	392,108	367,789	409,992
	65,490	40,715	37,846	52,141
Interest of outside shareholders	31,995	19,818	19,649	26,092
Net income	33,495	20,897	18,197	26,049
Forest Products				
Sales and operating revenue	167,005	169,294	171,771	166,844
Expenses including income taxes	144,181	148,848	151,350	148,932
	22,824	20,446	20,421	17,912
Interest of outside shareholders	9,188	8,759	9,476	8,611
Net income	13,636	11,687	10,945	9,301
Iron and Steel				
Sales and operating revenue	528,766	557,444	495,543	800,457
Expenses including income taxes	494,496	525,660	473,136	743,981
	34,270	31,784	22,407	56,476
Interest of outside shareholders	20,635	17,433	14,117	31,546
Net income	13,635	14,351	8,290	24,930
Real Estate				
Gross rentals and other income	49,937	46,284	41,013	56,754
Expenses including income taxes	44,715	41,318	37,029	49,747
	5,222	4,966	3,984	7,007
Interest of outside shareholders	45	49	53	41
Net income	5,177	4,917	3,931	6,966
Agriproducts				
Gross operating revenue	62,792	66,243	268,087	318,465
Expenses including income taxes	62,721	65,668	263,210	313,738
	71	575	4,877	4,727
Interest of outside shareholders	—	—	241	335
Net income	71	575	4,636	4,392
Other Businesses				
Gross operating revenue	63,886	76,565	87,061	74,854
Expenses including income taxes	63,527	74,011	79,946	73,080
Net income	359	2,554	7,115	1,774
Financial				
Gross operating revenue	43,504	34,972	29,720	34,065
Expenses including income taxes	25,440	30,076	25,283	28,267
Net income	18,064	4,896	4,437	5,798
Canadian Pacific Enterprises Limited – Net income	136,269	112,377	108,959	133,652
Minority interest	32,969	27,978	28,745	38,618
Net Income	$ 103,300	$ 84,399	$ 80,214	$ 95,034

Five-Year Summary

	1981	1980	1979	1978	1977
	Figures in thousands, except amounts per share				
Revenues	**$ 12,336,266**	$ 9,984,546	$ 8,177,779	$ 6,724,540	$ 4,899,048
Net income from:					
CP Rail	**$ 127,168**	$ 121,595	$ 108,737	$ 75,945	$ 65,189
CP Air	**(22,781)**	2,853	13,120	19,998	3,340
CP Ships	**43,782**	52,360	26,320	(8,654)	(10,730)
CP Trucks	**5,466**	(1,527)	(1,861)	2,158	1,183
Soo Line Railroad Company	**23,008**	23,076	17,799	14,815	11,151
CP Telecommunications	**4,936**	4,955	6,005	2,979	2,602
Miscellaneous	**16,993**	16,898	3,527	8,011	(2,875)
Canadian Pacific Enterprises Limited	**287,007**	362,947	334,495	234,534	170,002
Income before extraordinary item	**485,579**	583,157	508,142	349,786	239,862
Extraordinary item	**—**	—	—	—	7,166
Net income	**$ 485,579**	$ 583,157	$ 508,142	$ 349,786	$ 247,028
Total assets	**$ 16,330,185**	$ 13,038,501	$ 11,002,393	$ 9,255,931	$ 7,631,385
Total long term debt	**$ 4,647,637**	$ 2,997,437	$ 2,623,631	$ 2,454,214	$ 2,045,437
Perpetual 4% Consolidated Debenture Stock	**292,549**	292,549	292,549	292,549	292,549
Minority shareholders' interest in subsidiary companies	**2,477,342**	2,251,899	1,754,260	1,310,844	1,021,315
Shareholders' equity	**3,929,369**	3,523,186	2,987,948	2,586,699	2,301,615
Total capitalization	**$ 11,346,897**	$ 9,065,071	$ 7,658,388	$ 6,644,306	$ 5,660,916
Per Ordinary share:					
Income before extraordinary item	**$ 6.75**	$ 8.11	$ 7.06	$ 4.85	$ 3.31
Net income	**6.75**	8.11	7.06	4.85	3.41
Dividends for the year, paid semi-annually	**1.90**	1.85	1.70	1.10	0.95
Number of Ordinary shares	**71,662,280**	71,662,280	71,662,280	71,662,280	71,662,280

Geographic Distribution of Net Property Investment

at December 31, 1981	*Properties, at Cost less Depreciation* *in millions*	*Percent of Total*
Canada		
Atlantic Provinces	**$ 251**	2
Quebec	**1,078**	10
Ontario	**2,366**	22
Manitoba	**164**	2
Saskatchewan	**295**	3
Alberta	**1,582**	15
British Columbia	**1,463**	14
N.W.T., Yukon & Offshore	**305**	3
Transportation Equipment	**1,320**	12
	8,824	83
Outside Canada		
United States	**1,187**	11
Other	**116**	1
Ocean Ships	**508**	5
	1,811	17
Total	**$ 10,635**	100

Ordinary Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1981		1980		**1981**		1980	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
	(Canadian dollars)				(U.S. dollars)			
First Quarter	**49⅛**	**39⅞**	50½	34½	**41⅜**	**33⅜**	43¾	28½
Second Quarter	**50⅝**	**44⅛**	42⅞	35⅛	**42½**	**36⅝**	37⅜	29¾
Third Quarter	**55**	**40¼**	52⅜	38½	**44¼**	**33¼**	45	33½
Fourth Quarter	**44¼**	**36⅞**	52⅝	43	**36⅝**	**31**	45	36
Year	**55**	**36⅞**	52⅝	34½	**44¼**	**31**	45	28½

Stock Transfer Agents

The Royal Trust Company
1660 Hollis Street,
Halifax, N.S. B3J 1V7;

Brunswick House,
1 King Street,
Saint John, N.B. E2L 1G1;

630 Dorchester Boulevard West,
Montreal, Quebec H3B 1S6;

Royal Trust Tower,
Toronto-Dominion Centre,
Toronto, Ontario M5W 1P9;

330 St. Mary Avenue,
Winnipeg, Manitoba R3C 3Z5;

1862 Hamilton Street,
Regina, Saskatchewan S4P 2B8;

700 The Dome Tower,
Toronto-Dominion Square,
333 – 7th Avenue S.W.,
Calgary, Alberta T2P 2Z1;

Royal Trust Tower,
Bentall Centre,
555 Burrard Street,
Vancouver, B.C. V7X 1K2.

Bank of Montreal Trust Company,
2 Wall Street,
New York, N.Y. 10005.

Deputy Secretary,
Canadian Pacific Limited,
50 Finsbury Square,
London, England EC2A 1DD.

Stock Listings

Debenture Stock (Sterling) listed on: London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on: New York Stock Exchange

Preference Stock (Sterling) listed on: Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on: Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preferred Shares, Series A listed on: Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Stock listed on: Montreal, Toronto, Vancouver, New York and London, Eng. Stock Exchanges.

Shareholders having inquiries or wishing to obtain a copy of the Company's Form 10K filed with the Securities and Exchange Commission should write to:

J. C. Ames,
Vice-President and Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Canada H3C 3E4.

Stock Holdings

The number of registered holdings of the voting capital stock of the Company at December 31, 1981 was 60,722.

The distribution by countries of total voting rights of the Ordinary and Preference Stock at that date was as follows:

Canada	71.96%
United States	18.31
United Kingdom	3.59
Other Countries	6.14
	100.00%

Board of Directors

*†W. J. Bennett, O.B.E., *Consultant,* Iron Ore Company of Canada, Montreal.

*F. S. Burbidge, *Chairman and Chief Executive Officer,* Canadian Pacific Limited, Montreal.

Allan Findlay, Q.C., *Partner,* Law firm of Tilley, Carson & Findlay, Toronto.

G. Arnold Hart, M.B.E., *Director and Former Chairman of the Board and Chief Executive Officer,* Bank of Montreal, Mountain, Ontario.

Allard Jiskoot, *Director and Former Chairman of the Board,* Pierson, Heldring & Pierson N.V., Amsterdam, The Netherlands.

H. J. Lang, *Chairman of the Executive Committee of the Board of Directors,* Canron Inc., Toronto.

Donald C. Matthews, *President and General Manager,* Highland Stock Farms Ltd., Calgary.

*W. Earle McLaughlin, *Director and Former Chairman of the Board,* The Royal Bank of Canada, Montreal.

Stanley A. Milner, *President and Chief Executive Officer,* Chieftain Development Co. Ltd., Edmonton.

J. H. Moore, *Chairman of the Executive Committee of the Board of Directors,* London Life Insurance Company, London, Ontario.

*Paul L. Paré, *Chairman and Chief Executive Officer,* Imasco Limited, Montreal.

The Rt. Hon. Lord Polwarth, T.D., D.L., *Director,* Bank of Scotland, Edinburgh, Scotland.

*†Claude Pratte, Q.C., *Partner,* Law firm of Letourneau & Stein, Quebec.

Lucien G. Rolland, *President and Chief Executive Officer,* Rolland inc., Montreal.

A. M. Runciman, *Former President,* United Grain Growers Limited, Winnipeg.

Thomas G. Rust, *President and Chief Executive Officer,* Crown Zellerbach Canada Limited, Vancouver.

F. H. Sherman, *President and Chief Executive Officer,* Dofasco Inc., Hamilton.

*Ian D. Sinclair, *Chairman and Chief Executive Officer,* Canadian Pacific Enterprises Limited, Montreal.

*W. W. Stinson, *President,* Canadian Pacific Limited, Montreal.

The Hon. John N. Turner, P.C., Q.C., *Partner,* Law firm of McMillan, Binch, Toronto.

†Kenneth A. White, *Chairman and Chief Executive Officer,* Royal Trustco Limited, Toronto.

*Ray D. Wolfe, *Chairman of the Board and President,* The Oshawa Group Limited, Toronto.

*Member of the Executive Committee
†Member of the Audit Committee

Directorate

At the Annual General Meeting of Shareholders held on May 6, 1981, the Board of Directors was increased from twenty-one to twenty-two members. To fill the vacancy thus created, Mr. W. W. Stinson was elected a Director at that meeting and, at the Board meeting following the Annual General Meeting, he was elected President of the Company, succeeding Mr. F. S. Burbidge.

Officers

F. S. Burbidge, *Chairman and Chief Executive Officer,* Montreal.

W. W. Stinson, *President,* Montreal.

Corporate Services

J. C. Ames, *Vice-President and Secretary,* Montreal.

J. C. Anderson, *Vice-President Personnel,* Montreal.

J. P. T. Clough, *Vice-President Finance and Accounting,* Montreal.

Donald S. Maxwell, Q.C., *Vice-President Law and General Counsel,* Montreal.

J. A. McDonald, *Vice-President Industry Relations,* Montreal.

R. T. Riley, *Vice-President Corporate,* Montreal.

I. B. Scott, *Vice-President Administration and Public Affairs,* Montreal.

Marie E. Mottashed, *Comptroller,* Montreal.

D. E. Sloan, *Treasurer,* Toronto.

Copies of the following 1981 annual reports can be obtained by writing to:

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Secretary
Canadian Pacific Enterprises Limited
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Place du Canada
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Canadian Pacific Air Lines, Limited
Secretary
Canadian Pacific Air Lines, Limited
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One Grant McConachie Way
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